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**NAVAL
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MONTEREY, CALIFORNIA

THESIS

**THE DOMESTIC AND INTERNATIONAL DIMENSIONS
OF RISK: PROSPECT THEORY AND ARGENTINA**

by

Jason McClure

September 2004

Thesis Co-Advisor:
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**THE DOMESTIC AND INTERNATIONAL DIMENSIONS OF RISK: PROSPECT
THEORY AND ARGENTINA**

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Submitted in partial fulfillment of the
requirements for the degree of

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from the

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ABSTRACT

For years, contemporary analysts have stated that Argentine foreign policy has followed incoherent patterns, oscillating back and forth between open support and defiance of the U.S. on a variety of different issues, regardless of regime. Only in the 1990s, under the presidency of Carlos Menem, did Argentina begin consistently following a foreign policy with apparent consistency. The claim of inconsistency seems to be rooted in rational-choice decision theory, expecting that policy-makers should make policy choices based on perceptions of absolute utility. However, analyzing Argentine foreign policy from an historical perspective using a relatively new theory yields interesting results and points to general consistency the nation's projection of itself.

Prospect theory is a decision making theory which claims that decision makers make choices in terms of relative rather than absolute utility, based on a status-quo reference point. Based on this theory, individuals are likely to take risks when facing losses and avoid risk facing gains. Traditionally applied at one level of analysis, this thesis applies prospect theory across both the domestic and international level, examining how losses or gains at one level can affect decisions made at the other and vice versa. By applying prospect theory as a two level, Argentine foreign policy appears to be based on its fall from “grace” throughout the twentieth century.

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I. THEORY, FOREIGN POLICY, AND ARGENTINA

A. INTRODUCTION

Throughout the twentieth century, Argentina has puzzled the international community with its irregular foreign policy actions. Its foreign policy seemed inconsistent and highly unorthodox, especially for a Third World country, because it often assumed positions that opposed regional and world powers. It remained neutral in World War I and World War II, engaging in trade with Axis nations, until nearly the end of the war. Following the war, Argentina routinely sought to counter many U.S. and western policy efforts and voiced strong opposition to many U.N. measures. During the Cold War, it adopted a neutral “third position,” which was essentially an effort to balance the U.S. and Soviet Union by creating an attempt at neutrality in a bipolar world. In the early 1980s, Argentina invaded the Falkland Islands, a British possession, and fought a losing war with that state. It pursued nuclear arms proliferation and engaged in an arms race with its northern neighbor Brazil, advancing quite far towards the development of atomic weapons, and engaged in several weapons sharing programs with pariah states such as Iraq and Syria.

Interspersed with such policies, Argentina at times sought a close friendship with the U.S. and a normal place in the world order. In the 1950s, Argentina came close to sending troops to the Korean Peninsula. In the late 1970s, Argentina viewed itself closely related to the U.S., working with the hemispheric power to help train contras in Nicaragua. In the 1980s it expected the U.S. to side with it in the Falklands/Malvinas conflict. In the 1990s, Argentina sent warships to the Persian Gulf to participate in Operation DESERT SHIELD/STORM. Policies such as these differed greatly from its efforts at maintaining “neutrality.” Because of its wavering and near constant direction changes in foreign policy up to the mid-1990s, Argentine foreign policy has often been referred to as misguided and uncertain. Joseph Tulchin, one of the leading experts in Argentine foreign policy, has described Argentina as suffering from an “identity crisis,” changing “its basic posture on international issues more frequently than Diego Maradona

scored goals.”¹ Viewed by itself, as isolated political stances, Argentine foreign policy for the past sixty years does appear erratic, uncertain, and unstable. However, viewed in a broader context, Argentina has made predictable and consistent foreign policy decisions, even though these decisions have caused it to change course many times.

By taking a relatively new approach to international relations, prospect theory, and applying it to the Argentine case, this work will illustrate how this country’s foreign policy has not been erratic as is often claimed, but rather is the product of its leaders’ reactions to gains and losses felt in the international and domestic arena. By applying and building on prospect theory, I will explore the manner in which Argentine policymakers have pursued risk seeking and risk averse strategies in a two-level game of decision-making under risk and uncertainty.

B. THEORY

1. Prospect Theory- an Alternative to Rational Choice Theory

In political science terms, prospect theory is a relatively new challenge to rational choice models of how individuals make decisions, which has for years dominated the literature as the accepted way policymakers go about weighing policy choices. It is based on a 1979 publication by Amos Tversky and Daniel Kahneman, which describes a series of experiments demonstrating that problem framing can have a large impact on the course of action selected by a decision-maker.² This theory came about as a counter to rational-decision theory, which has for years dominated the literature as the accepted way policymakers go about weighing policy choices.

Kahneman and Tversky found that individuals tend to view choices in terms of relative rather than absolute utility; viewed relative to a status quo. (Figure 1.1) People attach a sense of legitimacy to the status quo, it is their rightful place. This is known as a

¹ Joseph S. Tulchin, *Argentina and the United States: A Conflicted Relationship* (Boston: Twayne Publishers, 1990), 163

² Daniel Kahneman and Amos Tversky, “Prospect Theory: An Analysis of Decision Under Risk,” *Econometrica* 47, no. 2 (March 1979): 263-292. The initial theory has been built upon by its founders, Daniel Kahneman and Amos Tversky, “Choices, Values and Frames.” *American Psychologist* 39 (April 1984): 341-350, Daniel Kahneman and Amos Tversky, “Advances in Prospect Theory: Cumulative Representation of Uncertainty,” *Journal of Risk and Uncertainty* 5 (1992):297-323.

“status-quo bias” and has been rigorously tested in controlled experiments.³ Gains relative to the status quo are acceptable, but losses are not only unacceptable but must be recouped in order to return to the “rightful position.” Thus, individuals will fight to retain their status quo against losses, while accepting gains with ease.

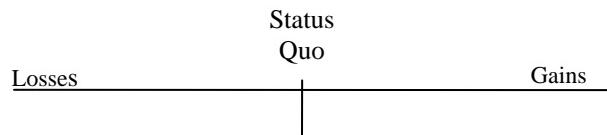


Figure 1.1 Gains and Losses as Relative to Status Quo

Therefore, losses tend to loom larger than gains, explaining why the value curve is steeper regarding losses, (Figure 1.2), and individuals are likely to pursue risky behavior to recoup losses and return to the status quo position. However, when pursuing gains, people tend towards being more cautious, for fear of losing what they already have.

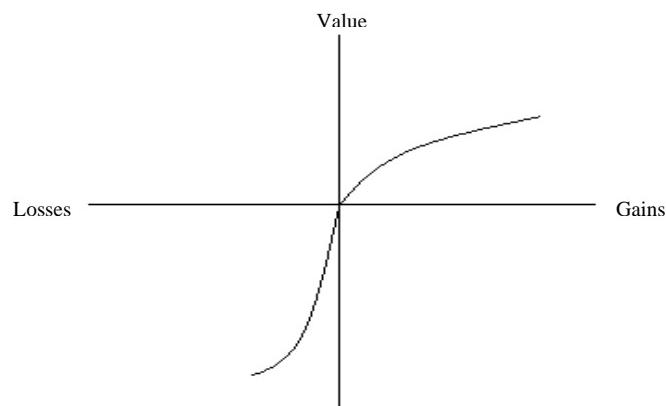


Figure 1.2 Prospect Theory Value Function (From Ref.: Daniel Kahneman and Amos Tversky, “Prospect Theory: An Analysis of Decision Under Risk,” *Econometrica* 47, no. 2 (March 1979): 263-292)

³ The status quo bias was noted in William Samuelson and Richard Zeckhauser, “Status Quo Bias in Decision Making,” *Journal of Risk and Uncertainty* 1 (1988): 7-59. The bias was tested in Jack L. Knetsch, and Richard H. Thaler, “Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias,” *The Journal of Economic Perspectives* 5, no. 1 (Winter 1991):193-206.

Another interesting phenomenon is the manner in which perceptions of status quo are updated to assimilate gains and losses, creating a basis for future decisions. Gains are swiftly assimilated and the status quo is adjusted to accommodate these gains. Thus, an individual who wins \$20 playing blackjack immediately comes to view his \$20 gain as a part of the status quo. However, due to a phenomenon known as the endowment effect⁴, people tend to update their status quo reference point regarding losses much more slowly. Therefore, the losses remain more dominant, and people are more likely to seek recovering losses and returning to the status quo.⁵ Thus, a gambler who loses \$20 playing blackjack is likely to feel that he is down \$20 and seek to recover those losses.

These findings lead to some ultimate conclusions of individual risk taking propensity when facing gains and losses. Given that individuals value gains and update their reference point to assimilate gains rapidly, they are less likely to take risk when in the domain of gains. Thus, they are risk averse, and will pursue what they consider to be sure bets as opposed to risking a loss of their gains. Conversely, individuals who suffer losses and find themselves in the domain of losses are likely to pursue risk seeking behavior, due to the fact that losses loom larger than gains and that their perception of status quo updates very slowly facing losses due to the endowment effect. They “hedge their bets on the unlikely prospect of recouping the status quo, which risky choices offer, rather than accept a certain yet limited loss.”⁶ Based on the prospect theory value curve, we can transpose risk vs. gains onto similar axes, as illustrated in Figure 1.3. The curve is similar in shape to a value curve, accounting for the increased risk seeking propensity facing losses and aversion facing gains.

⁴ Richard Thaler, “Toward a Positive Theory of Consumer Choice,” *Journal of Economic Behavior and Organization* 1 (1980): 39-60. Daniel Kahneman, Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler, “Experimental Tests of the Endowment Effect and the Coarse Theorem,” *The Journal of Political Economy* 98, no. 6 (December 1990): 1325-1348.

⁵ Kahneman and Tversky, 286-287, and Kurt Weyland, *The Politics of Market Reform in Fragile Democracies: Argentina, Brazil, Peru, and Venezuela* (Princeton: Princeton University Press, 2002).

⁶ Weyland, 41-42.

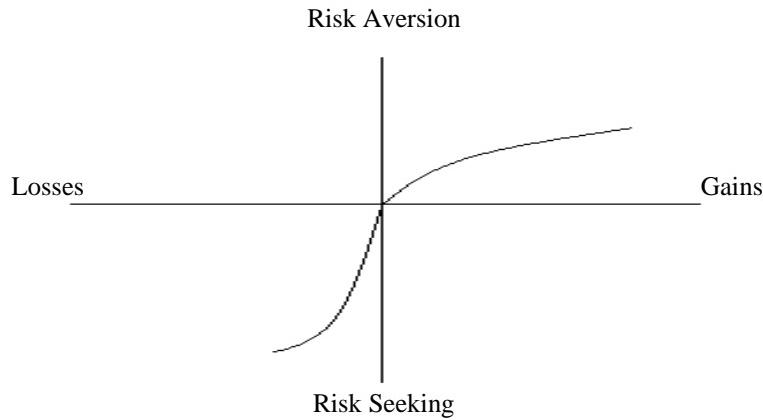


Figure 1.3 Domain vs. Risk Curve

Though originally designed for application in financial situations, the authors recognized its broader application into political and economic fields and the theory has been built upon by others since its original inception. Jack Levy discusses the manner in which the theory can be generally applied to international relations⁷ Applying the theory to specific cases, Kurt Weyland has used prospect theory to explain sweeping radical reforms in nascent democratic regimes in Latin America in the late 1980s and early 1990s.⁸ Today it stands as an opposing (and often criticized) perspective on the manner in which individuals and policymakers make choices in risky situations facing gains and losses.

2. A New Approach to Prospect Theory

Until now, Prospect Theory has only been applied in a one dimensional fashion, examining how policy decisions are made at either domestic or international level in response to stimuli at the same level. However, policymakers face pressure from numerous sources and multiple levels in making political decisions. They have the concerns of individual citizens, interest groups, broad coalitions, other nations, and international organizations to consider when crafting policy. The unitary actor assumption made by Kenneth Waltz, while helpful in simplifying our understanding of

⁷ Jack S. Levy, "Prospect Theory, Rational Choice, and International Relations," *International Studies Quarterly* 41, no. 1 (March 1997): 87-112

⁸ Weyland.

international politics, cannot explain many actions taken by policymakers.⁹ According to Waltz's model, Argentine foreign policy has been wholly irrational for the past 60 years, yet that claim seems to defy logic. Surely there were comprehensible reasons for the actions taken by several different regime types across such a large span of time and a broad scope of policy measures.

C. ARGENTINE CONTRADICTION: PERCEPTION AND REALITY

Argentina is imbued with some unique characteristics which make it act differently than its neighbors in Latin America, which must be considered when using it as an example of a foreign policy theory. Understandably, such specific features call into question the ability of Argentina to act a proper case study for a broad theory. However, my goal here is not to create a broad theory, but to explain that Argentina's foreign policy decisions over the past sixty years have been based rationality and necessity.. In doing so, I hope to enlighten the broader literature by asking questions and provoking thought, but I do not seek to turn the world of international politics on its head.

Though independent of colonial rule in 1810, state power was consolidated and centralized in the middle of the 19th century, at which point Argentina entered the world community on a basis of agricultural export into the international division of labor. The nation flourished under these conditions, growing at such a rate that by the early 20th century it was among the most advanced nations in the world. By 1914 Buenos Aires had grown to be the second largest city on the Atlantic seaboard, with grand architecture and infrastructure to match European capitals. Argentine per capita GDP matched that of Germany, and surpassed Spain, Italy, Sweden, and Switzerland. Furthermore it ranked among the world's top exporters; number one in corn, second in wool, and third in live cattle and horses.¹⁰ Table 1.1 illustrates Argentina's position relative to other powers in 1870 and 1913.

⁹ Kenneth Waltz, *Theory of International Politics* (New York: McGraw Hill, 1979).

¹⁰ Argentine turn of the century performance data from: David Rock, *Argentina 1516-1982 From Spanish Colonization to the Falklands War* (Berkeley: University of California Press, 1985), 172-173.

	Argentina	Australia	Denmark	France	Germany	Great Britain	Holland	Japan	USA
1870	1432	3691	1697	1481	1404	2288	2120	726	1749
1913	2739	4845	3311	2691	2819	3605	3055	1272	4307

Table 1.1 Per Capita GDP for Select Countries(Dollars in 1989 Purchasing Power Parity) (After: Ref. Felipe A. M. de la Balze, *Remaking the Argentine Economy* (New York: Council on Foreign Relations Press, 1995), 23)

But starting in the late 1920s, Argentina entered period of decline, and since the 1930s, has endured a rollercoaster ride of economic performance. Following the worldwide depression of the 1930s, Argentina endured cycles of boom and bust as regimes and economic models changed, with each downturn leaving the nation worse off overall; an ever downward trend. Figure 1.3 graphically illustrates this trend.

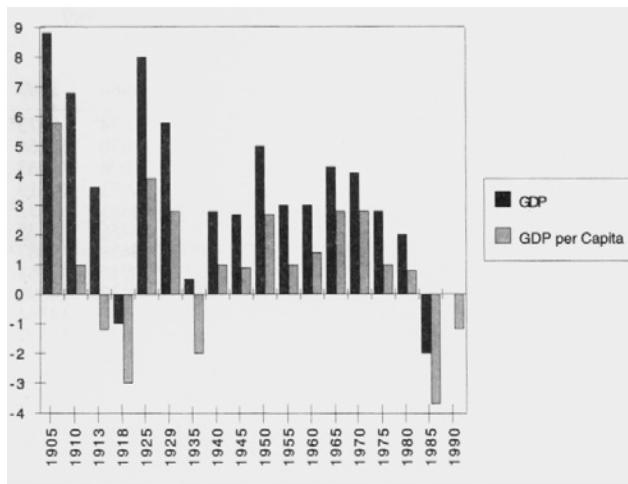


Figure 1.4 Average Rate of GDP Growth and Per Capita GDP (in five-year periods, 1901-1990) (From Ref.: Felipe A. M. de la Balze, *Remaking the Argentine Economy* (New York: Council on Foreign Relations Press, 1995), 25)

Argentina entered an economic upturn in 1946 only to experience depression again in the mid-1950s. Based on an extremely unstable political environment varying between military regimes and civilian governments from 1946 through 1983, as well as a very

heterodox development model which created an insolvent economy, Argentina had fallen from the position of a rising world power in the 1920s to a Third World nation in the span of sixty or so years.

Another historical dilemma facing Argentina is its perception of territorial losses, dating back to the colonial legacy inherited from the Spanish as the center of the *La Plata* viceroyalty. This occurred through the 19th century as the varying nations of South America consolidated their borders following independence and has continued through numerous border disputes, including the aforementioned Falklands/Malvinas conflict, and several disputes with Chile and Brazil (which were resolved in the 1990s but shaped geopolitical perceptions for decades). In response to a Gallup poll asking the question “Do you believe Argentina has won or lost territories throughout its history?” as many as 73.6% of respondents answered that it has lost territory. This perception increased with higher levels of education, pointing to the role the educational system in Argentina plays in perpetuating this perception.¹¹

A study of Argentine history textbooks from 1879 to 1986 confirms this fact. Carlos Escudé notes an interesting trend which has potentially profound ramifications for prospect theory’s look at Argentine foreign policy. “In the context of Argentina’s cultural dynamics, 19th Century gains are transformed into losses, while in the 20th Century, when there were no losses or gains [before the 1970s] an imaginary territory was invented which is nonetheless computed as a gain.”¹² Thus, any coming to grips with the fact that these imaginary territories¹³ are not part of Argentina would be computed as a loss. Thus, the perception of territorial losses has been institutionalized by the education system through years of dogmatic explanation, best described with the following:

¹¹ Survey conducted in 1985 by the Gallup Institute of Argentina, discussed in Carlos Escudé, “Argentine Territorial Nationalism,” *Journal of Latin American Studies* 20, no. 1 (May 1988):139-165, 156-157.

¹² Carlos Escudé, *Education, Political Culture, and Foreign Policy: The Case of Argentina* (Durham: Duke-UNC Working Paper Series, 1992), 9.

¹³ According to Escudé, this imaginary territory added from 1920 through 1950 included the Argentine Antarctic sector, the South Georgia Islands, the South Sandwich Islands, and the South Orkney Islands, which are included in school texts as if they were provinces, though Argentina exercised no control over these areas, and some were the recognized holdings of other nations. From 1938 to 1948 alone, Argentina “added” 1.2 million square kilometers of territory, a figure schoolchildren began memorizing in 1947.

The Argentine School, from the first grades to the university, must propose to develop in the Argentines the fervent conviction that their nationality's manifest density consists of creating a civilization...¹⁴

Argentina's status as a once great power in the early 20th century and inflated sense of national boundaries have combined to create a unique sense of greatness. As discussed earlier, losses are accepted very slowly, and it seems that before the mid to late 1990s, Argentina had yet to accept its decline in status throughout the twentieth century. This brand of nationalism, called a “national superiority complex” by Escudé¹⁵ and “exceptionalism” by Joseph Tulchin¹⁶ creates a highly exaggerated sense of Argentina’s real place in the world. According to a series of IPSA polls, a majority of the Argentine population think “1) That the world has a great deal to learn from Argentina; 2) That Argentina has nothing to learn from the world; 3) That Argentina is the most important country in Latin America; 4) That in no country [in the world] do people live as well as in Argentina; 5) That Argentina deserves an important place in the world; and 6) that Argentina’s scientists and professionals are the best in the world.”¹⁷ This strong perception of greatness fosters ardent nationalism; understandably, the people genuinely believe in the greatness of their nation.

D. PROSPECT THEORY AND ARGENTINA: AN EXPLANATION

In Argentina then, two perceptions have combined, which I feel have had a tremendous impact on the foreign policy decisions that the nation has made since the end of the Second World War. Argentina sees itself as having lost a great deal historically; economically based on its decline from a position as one of the fastest developing nations on the globe, and territorially, based on a misperception of territorial holdings created by politicians since the 19th century and institutionalized through the educational system. This sense of loss then indicates that Argentines feel they are in the domain of losses, a feeling which has increased through time as national status has deteriorated. Yet this

¹⁴ Definition of the “moral orientation of education,” given by the *Monitor* in 1930; cited in Escudé, *Education, Political Culture, and Foreign Policy*, 26.

¹⁵ Escudé, *Argentine Territorial Nationalism*, 161.

¹⁶ Joseph S. Tulchin, “Continuity and Change in Argentine Foreign Policy”, in *Latin American Nations in World Politics*, 2d ed., eds. Heraldo Muñoz and Joseph S. Tulchin (Boulder: Westview, 1996).

¹⁷ Polls conducted in 1981, 1982, and 1984, and cited in Escudé, *Argentine Territorial Nationalism*.

feeling of loss is directly contradictory to this national superiority complex (which stems from past greatness and self-deception), by which the Argentine people feel they are exceptional. The complex represents the national perception of status quo; Argentina's rightful place is as a great power. The chasm between losses and status quo combined with the inability to update reference points to truly accept losses (aided by institutionalization through education) has caused Argentina to "lash out" in its foreign policy, pursuing a highly unorthodox set of policy measures. To the outside observer highly activist policy may seem risky. To the Argentine policymaker, it is safe, because it appeals to popular sentiment.

Policymakers find themselves needed to balance between internal and external constraints. In times of prosperity, they find themselves in a domain of gains. Appealing to national sentiment, they engage in foreign policy measures designed to enhance Argentina's greatness, even when they oppose international objectives of western powers. However, in times of decline, material concerns tend to loom larger because people need to eat, so policymakers are more likely to risk upsetting nationalistic sentiment and fall in line with the west in hopes of improving economic conditions (through investment, aid, debt relief etc.) This claim would account for foreign policy that appears to vacillate, but actually corresponds to economic fluctuations, and accounts for many of Argentina's irrational foreign policy choices. However, other events can also affect foreign policy, as shall be demonstrated.

E. CASE SELECTION

In order to validate the previous claims, I will look at three different Argentine policymakers, representing different regime types across a broad period of time. These are the first presidency of Juan Perón (1946-1955)¹⁸, the military junta which governed Argentina from 1976-1983¹⁹, and the presidency of Carlos Menem (1989-1999).

The presidencies of Juan Perón and Carlos Menem are included to demonstrate broad changes in the direction of foreign policy, which have characterized the generally

¹⁸ Perón was exiled in 1955, only to return in 1973 and govern until his death in 1974. However, this analysis is only of foreign policy in the period 1946-1955. He continued to hold significant sway while exiled from 1955 through 1973. Nor does this analysis discuss his second presidency, from 1973 through 1974, or the broad social-political movement known as Peronism.

¹⁹ The military regime lasted from 1976 until 1983 and spanned four heads of state; however, I will only look at the junta led by General Leopoldo Galtieri, from 1981 to 1982.

held perception that Argentina is inconsistent and uncertain in its actions on the international stage. These will add credibility to prospect theory in general and demonstrate how prospect theory functions in two dimensional decision-making. Both examples demonstrate domestic risk brought on by changes in foreign policy. Perón began his presidency enjoying economic surpluses brought on by the economic activity during World War II and its aftermath. This domain of gains allowed him to conduct foreign policy which appealed to nationalism and was therefore risk averse, though it seemed highly irregular and irritating to the United States. However, economic downturns near the end of the 1940s made Argentina's economic insulation disappear, and Perón began looking to the outside for help, engaging in foreign policy that was domestically risky. He quickly changed alignment, ultimately going far enough to motivate an ouster by military leadership factions.

Carlos Menem came to power already in a domain of losses, with the national economy collapsing due to hyperinflation. But he encountered a much deeper domain of losses after nearly eighty years of economic decline. He recognized that economic malaise came about partly because of the foreign policy actions of the past fifty years and undertook a complete and permanent reversal in the direction of Argentine foreign policy. He broadly aligned with the U.S., seeking to create “carnal” relations with the Northern hegemon.²⁰ Domestically, such alignment was highly risky given nationalistic tendencies, for it essentially called into question many myth and misperceptions Argentines carried about themselves. He even went so far as to label his own nation as a “developing” one, seeking to eliminate any belief that Argentina was a world power.

The military junta under General Galtieri will analyze a much more specific foreign policy action; the invasion and fighting of the South Atlantic War in 1982. The military regime conducted a broad foreign policy which vacillated, going from open hostility to the U.S. by ignoring a grain embargo on the Soviet Union and persistent relations with Cuba to a pro-Western alignment involving contra-training in Central America. However, the South Atlantic War is the most insidious action Argentina has taken internationally in the last fifty years, and potentially has the greatest implications

²⁰ Roberto Russell and Laura Zuvanic, “Argentina: Deepening Alignment with the West,” *Journal of Intramericana Studies and World Affairs* 33 no. 3 (Autumn, 1991), 115.

for two-level prospect theory, as discussed in section 1.1.2 above. Furthermore, it is among the most mis-perceived actions by outsiders and is most often pointed to as an example of Argentina’s “erratic” international behavior. But this one action demonstrates both Argentina’s feeling of loss over time and its perception of reality regarding its own greatness and rightful position. Therefore, I have chosen to highlight this event for a more in-depth analysis of the decisions and factors leading to them, framed by two-level prospect theory. Combined with the broader policy changes made by Perón and Menem, the example of the Falklands/Malvinas War will give a fuller explanation for Argentine foreign policy and a more tangible grasp of how prospect theory functions as a two level game.

II. JUAN PERÓN: POPULIST NATIONALSIM

A. INTRODUCTION

The course of Argentine history was tremendously altered in 1946, when a member of the governing military junta, Juan Perón, came to power by popular election. He governed from 1946 to 1955, a period commonly known as the Peronato.¹ During this nine year span, Perón set about transforming Argentine society in every aspect; political, economic, and social. When he finally fell from power in 1955, he left behind a legacy which continues to shape Argentine society to the present day.

Essential to understanding Perón is a comprehension of his support base. Perón came to power as a member of the counter-revolutionary coup of 1943, and served as both Minister of War and Secretary of Labor under the regime which governed from 1943 to 1946.² The fact that he served in both positions allowed him to create a very unique but powerful following. As Minister of War, Perón fomented nationalist policy, increasing the size and benefit structure of the military and procuring new equipment and capabilities, promising even greater benefits in exchange for the support of the armed forces.³ As Secretary of Labor, he set about increasing the quality of life for urban workers by increasing benefits, buttressing social security, and securing basic workers' rights; in doing so he created an extremely strong following in the working class, a group

¹ Robert D. Crassweller, *Perón and the Enigmas of Argentina* (New York: W.W. Norton and Company, 1987), refers to the period from 1943-1955, but for simplicity's sake, his initial presidency (1946-1955) will be referred to as the Peronato.

² Perón, then an army Colonel, was initially named Undersecretary of War before being named Minister of War. In October, 1943, he was appointed head of the Labor Department, upgrading its status and responsibility through the creation of the *Secretaría de Trabajo y Previsión* (the Secretariat of Labor and Social Security), a position he used to create an initial series of policies designed to benefit Argentina's urban working class.

³ A few examples: Military pay rose substantially, the *New York Herald Tribune* reported in 1948 that the Argentine officer received more pay than comparable U.S. officer. The overall military budget in 1950 was 25% of the total Argentine budget, new bases were constructed, and Argentina boasted the only Latin American Air Force with advanced jet aircraft, including 100 Gloucester Meteor fighters. Cited in: Robert J. Alexander, *The Perón Era* (New York: Columbia University Press, 1951), 118-119.

which had never had a true supporter in the government.⁴ In 1946, based on the votes of labor⁵ and the backing of the military⁶, Juan Perón came to power in Argentina's first honest election since 1928.⁷ Though Perón's support was based on a large heterogeneous coalition, for simplicity's sake his support will be understood to be a coalition of "labor and the armed forces, under [his] supreme command."⁸

Among the most radical measures taken by Perón for which he continues to be remembered (or vilified) around the world was his foreign policy. He took traditional Argentine nationalism and neutrality to another level, seeking to finally achieve for Argentina the dreams which had vanished with the coming of the Great Depression of the 1930s. His foreign policy served dual roles, and both roles were based on his support base. He sought to elevate Argentina on the global stage to a leadership role, a South-American counter to the hegemony of the United States to the north. He would thus pursue independent policies to show that Argentina was a great nation qualified to act without external leadership and capable of making a difference in the direction of world diplomacy, a stance which tended to give the western powers of the post-war world quite a headache. On the other hand, Perón sought to alter Argentina's development model to make it independent of the rest of world while allowing it to grow, a necessary goal to

⁴ So strong was his following among labor, that when the governing junta, fearful of Perón's populist rhetoric, had him imprisoned in October 1945, labor took the streets. In a protest rally organized by Perón's most loyal friends (including Eva Duarte) between 100,000 and 500,000 supporters from the labor sector demonstrated in support of their strongest advocate and preferred leader. Statistics courtesy of: Samuel L. Baily, *Labor, Nationalism, and Politics in Argentina* (New Brunswick: Rutgers University Press, 1967), 89 and Crassweller, 169.

⁵ Perón was nominated by the newly formed Labor Party, formed in October of 1945, by the collaboration of one-hundred and fifty-three labor leaders, combined with the Unión Cívica Radical (UCR).

⁶ While the upper-elite of the military despised Perón because of his populist leanings, his popular following ensured that any effort to remove him would precipitate civil war. The middle ranks of the military, low and mid-level officers, favored Perón's vision of a strong Argentina. The lower ranks of the military favored his nationalism and his social justice programs through a kind of osmosis of the lower classes. Source: Arthur P. Whitaker, *The United States and Argentina*, The American Foreign Policy Library, ed. Donald C. McKay (Cambridge, Harvard University Press, 1954), 141.

⁷ Marisabel Brás Castro, "A Chronology of the Public Career of Perón," in *Juan Perón and the Reshaping of Argentina*, eds. Frederick C. Turner and José Miguens (Pittsburg: University of Pittsburg Press, 1983), 249.

⁸ Whitaker, 143.

maintain the support of his largest support demographic.⁹ He was able to reconcile these goals for a time, but eventually they became contradictory.

Perón crafted a bold foreign policy but one that was domestically safe given the natural tendencies of the Argentine people, discussed in Chapter I. However, it was only sustainable during a brief period of heightened economic affluence based on the massive currency reserves Argentina had accumulated during the Second World War and the surge of demand created by the end of the war. But as the world returned to a state of normalcy, this foreign policy would prove to be difficult to sustain while continuing to guarantee economic prosperity. In early 1949, Argentina began to sink into an economic recession. Perón began losing the support and control of his popular support base, and had to rely on increasingly draconian measures, a situation destined for failure. As Figure 2.1 shows, Perón found himself in the domain of losses. In response, he began domestic risk seeking behavior, as illustrated in Figure 2.2, in foreign policy hoping that an economic resurgence would regain his massive popular appeal among the workers preventing the military from acting against him. In order to encourage this economic resurgence, he modified his foreign policy model, pursuing a strategy friendlier to the U.S. and less nationalistic. It was a gamble; Perón rolled the dice, and lost.

⁹ Perón continued to improve the living standards of the working class. Among his major initiatives were "pension schemes and protection against layoffs, a working day of statutorily defined length, improved working conditions, subsidized housing and legal services, [and] a state commitment to full employment, and the rights to 'just pay'." Source: David Rock, *Argentina 1516-1982: From Spanish Colonization to the Falklands War* (Berkeley: University of California Press, 1985), 262.

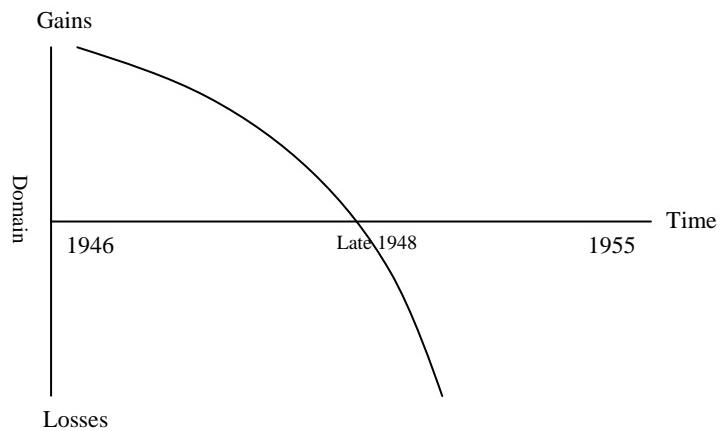


Figure 2.1 Perón's Domain over Time (1946-1955)

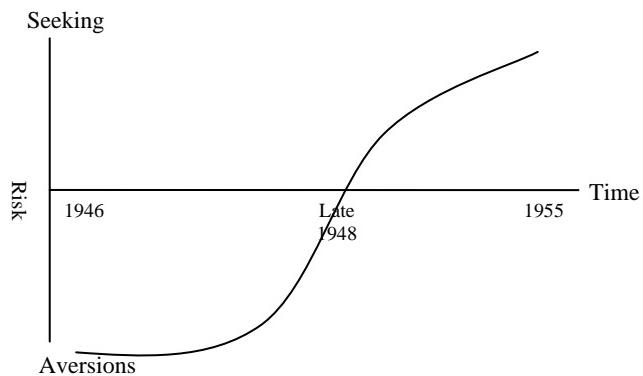


Figure 2.2 Domestic Risk Seeking through Foreign Policy over Time (1946-1955)

B. TIMES OF PLENTY

1. A Prosperous Economic Climate- The Domain of Gains

Perón came to power shortly after the cessation of hostilities in the largest war the world had ever witnessed. The end of the war guaranteed Argentina a prosperous economy based on two major conditions. During the latter part of the war, Argentina had been able to trade with several of the combatants, the United States in particular, which needed raw wool and canned meat to supply troops fighting the war. Therefore, Argentina had been able to accumulate a tremendous amount of foreign credit, including

a combined debt from the allied nations of \$1.7 billion in 1946¹⁰, and a vast currency reserve.¹¹ Thus, at war's end, Argentina was already in the domain of gains, thanks to the economic benefits of producing for a war while not suffering war's consequences. This was augmented by postwar trade as Europe struggled to rebuild with few goods to offer in return. Argentina was able to buttress its reserves, with a combination of hard currency and credits due to the inability of some European nations (particularly Great Britain) to pay in hard currency at the time¹² On the basis of a strong foreign currency reserve and foreign credits, Perón developed his first Five-year plan, using inconvertible credits to nationalize foreign held industries necessary for economic nationalism. During the first two or three years of Perón's regime the economy performed relatively well. Between 1945 and 1948, Argentina's GNP grew at around 29%.¹³ It ran trade surpluses of \$6 billion.¹⁴ Wages increased 33% in the industrial sector between 1946 and 1950, 70% if no wage benefits are accounted for.¹⁵ Total investment in the private and public sectors between 1945 and 1949 was over 67%.¹⁶

In a gains domain upon his accession to power in 1946, he continued experiencing increased gains as his economic plan produced positive results. His popular support increased, especially among the working classes, as he continued to deliver benefits. Seeking to maintain his position in the domain of gains, Perón engaged in risk averse behavior by crafting his foreign policy pursuing a domestically safe foreign policy by keeping the military happy by promoting Argentine "greatness" and taking a leading role in the international community. Furthermore, the range of policies, including open relations with the Soviet Union, fighting U.S. pan-American endeavors, and maintaining strong relations with fascist Spain, were not only safe, but necessary if Argentina were to be viewed as strong and Perón to maintain his nationalist aspirations.

¹⁰ Paul L. Lewis, *The Crisis of Argentine Capitalism* (Chapel Hill: The University of North Carolina Press, 1990), 177.

¹¹ In early 1946, Argentina held U.S. dollar reserves from U.S. trade totaled \$569 million. Source: Rock, 290.

¹² During 1946, Argentina added \$425 million to its foreign reserves through trade with Europe. Source: Ibid.

¹³ Ibid., 276.

¹⁴ Lewis, 177.

¹⁵ Ibid., 182.

¹⁶ Ibid., 199.

2. Domestically Risk Averse Foreign Policy

Perón was able to keep labor happy by delivering his promised spoils, and sought a foreign policy designed to keep his nationalist support base content as well. Since Perón was developing an economically independent Argentina, short of an aggressive Western response (an extremely unlikely prospect given its concerns elsewhere in the world) the international community would have little recourse if Perón stepped “out of line.” (Based on the assumption that autarky obtained).

Upon assuming power in 1946, Perón began to implement his nationalist program for Argentine independence and greatness. *El Líder* succeeded in many respects of his foreign policy, achieving great prestige (or notoriety) for Argentina among the nations of the international community.¹⁷ By stressing the importance of an anti-imperialist agenda, Perón’s foreign policy remained consistent with his ideology. How could Argentina be independent if it were a political tool of the United States? To this end, Perón practically rebelled against western powers in order to demonstrate Argentina’s ability to operate independently as a great power. Though one or two deviations occurred between 1946 and 1950, the general course towards which Perón sailed the Argentine ship of state was strongly anti-imperialist and a source of irritation to the U.S.

In Latin America, Peronist Argentina took a strong position against U.S. led pan-Americanism and sought to establish itself as a sub-regional hegemon and counter to the north. In 1947, Perón lobbied strongly against the U.S. effort to craft the Inter-American Defense Treaty in Rio de Janeiro, seeking to lead a Latin American opposition coalition. He objected to several aspects of the treaty, most notably the nature of veto power for signatories,¹⁸ he was determined not to sacrifice national sovereignty to collective action. Once the treaty was complete and Argentina had reluctantly signed on, Argentina delayed ratification for three more years.¹⁹ Argentina’s effort to project its independence were

¹⁷ In a speech to the Congress in February of 1948, Perón described prestige he had achieved through his foreign policy in seven major points, the last point was: “Expansion of Argentine Culture throughout the universe [Emphasis added].” Cited in Alexander, 171.

¹⁸ Though the United States wished to create a treaty built around its own desires for defense requiring a $\frac{3}{4}$ for action under the treaty, Perón stressed national sovereignty, and sought to give each of the twenty-one governments in the region veto power, requiring absolute consensus before action. Source, Whitaker, 222.

¹⁹ Albert Conil Paz and Gustavo Ferrari, *Argentina’s Foreign Policy, 1930-1962* (London: University of Notre Dame Press, 1966), 169.

further apparent in Perón's effort to curb U.S. plans to create a formal Pan-American system at the Bogotá Conference in 1948 on nationalist grounds. Rejecting the notion of a Pan-American Organization of American States (OAS) Perón claimed "our policy is to reach bilateral agreements with all the Latin American countries...the policy of San Martin."²⁰ In 1948, Argentina led the bloc of nations opposing the U.S. plans for the International Trade Organization in Havana, claiming that the colossus was seeking to "export its unemployment" by reducing worldwide trade barriers, which would benefit itself at the expense of the developing world.²¹ Though some contemporary accounts claim that Perón acted in a manner that was "relatively serene" towards the U.S. in the late 1940s, his efforts to block pan-American initiatives speak against these claims.²² Perón's diplomatic measures clearly point to his attempt to establish Argentina as a major player regionally, a counter-balance to American hegemony and an independent actor. But it was not only regionally that he sought the extension of Argentine glory; his attitude with regard to world affairs and the Cold War in particular, makes apparent his view of Argentina as a *world* power.

Through the second half of the 1940s, Perón maintained a strong friendship with fascist Spain in spite of the world's disapproval. While there were economic benefits associated with this alliance²³, the friendship goes deeper than that. There were similarities between both nations. Both were seen as pariahs following the Second World War because of their non-participation, and Perón was somewhat compelled by his notion

²⁰ Ibid., 228.

²¹ Alexander, 176.

²² Crassweller, 197. Paz and Ferrari point out that Argentine foreign minister Juan Bramuglia was forced to concede on the concept of unanimity. At the same time, however, he succeeded in obtaining a non-automatic principle included in the event of an attack, requiring deliberation before taking retaliatory action. He also achieved suppression of the concept of "threat of aggression" in the verbiage. Cited in Paz and Ferrari, 145-147.

²³ In 1946, Spain and Argentina signed a trade and payments treaty, by which Argentina agreed to extend credit and loans to Spain to allow the latter nation to purchase exports, in addition to agreements for Spain to buy agricultural products. Spain agreed to sell Argentina every year until 1952 a minimum of : 15,000 tons of iron, 5,000 tons of sheet iron, 5,000 tons of lead, textiles, agricultural and industrial machinery, electrical and fuel engines and more. Source: Raanan Rein, *The Franco-Perón Alliance: Relations Between Spain and Argentina 1946-1955*, trans. Martha Gerzeback (Pittsburg: University of Pittsburg Press, 1993), 83.

of Spain as Argentina's motherland.²⁴ But support for Spain also served *El Líder*'s grand foreign policy notion, that of promoting national sovereignty and neutrality. As stated by Perón:

If Franco controls the fate of Spain, that is something which concerns the [Spanish] people, not us. Let every nation have the government it wants. I do not know if Franco is a tyrant or not. I only know that he is the ruler of the Spanish people, and that is something that concerns the Spaniards, not you and not me.²⁵

To this end, Argentina led the effort in opposing a U.N. boycott on fascist Spain on the grounds that the organization was attempting to overcome national sovereignty and create an “impossible ideological uniformity.”²⁶ Through his opposition to U.N. sanctions, Perón sought to demonstrate that he could not be bullied by the U.S. or any other actor, and that he would oppose such efforts throughout the world.²⁷ Furthermore, he was promoting the doctrine of non-intervention, a cornerstone of his foreign policy vision.

The “third position” was the ultimate manifestation of Perón’s anti-imperialist rhetoric. By creating a middle position in the growing East-West conflict, Perón ensured that he maintained traditional Argentine neutrality and independence. To aggressively support either side would be to subordinate Argentina to a “greater” power, which was unacceptable. To take a neutral position was for Argentina to say that it *was* a great world power, capable of formulating its own independent position in response to an increasingly bi-polar world. In reality, Perón was attempting to balance the two great powers in order to preserve his claim to sovereignty. By attempting to export this logic throughout the region and the world, Perón sought to make Argentina a *leader* in world affairs. In 1947, he made a radio address to the “all the countries of the earth.” It stated:

Argentina wishes to place herself...in a position from which she can help to achieve this universal claim [to peace]. She aspires to contribute her effort to surmount the artificial obstacles created by man; to put an end to

²⁴ Ibid., 100.

²⁵ Perón to American ambassador according to his memoirs while in exile in Spain, cited in Rein, 110.

²⁶ Whitaker, 225.

²⁷ Argentina also opposed efforts against South African policies which were deemed racially discriminatory against Indian minorities and scrutiny of French and Dutch colonial policies in Morocco and the Far East respectively. Source: Rein, 112.

the anxiety of the destitute, and to ensure that the spirit and action of our country may always be at the service of the forces of good, to overcome the forces dominated by evil.²⁸

By seeking to “unite the world” under the banner of peace, Perón hoped to make Argentina a vanguard nation, a determiner of international agenda, and world leader.

The first noticeable instance of this leadership was Argentina’s effort to get elected to the Security Council in 1947 through lobbying among the Latin American members of the United Nations. Once successful, Argentina used this position to seek a peaceful resolution to the Berlin blockade in November, 1948; this effort proved unsuccessful. Perón’s doctrine of non-intervention later became one of the original sources of inspiration for the Non-Aligned Movement.²⁹

Perón continued to balance the U.S. and the Soviet Union for the first half the Peronato, retaining the “third position.” Naturally the U.S. was discontent at Perón’s insistence of neutrality, particularly in the late 1940s when the threat of another major war seemed imminent in Europe with the Soviet closing of Berlin and the beginning of the Cold War. It was in this climate the Perón chose to open relations with the Soviet Union, engaging primarily in economic relations with some measure of diplomacy. This marriage of convenience was based on “Argentina’s importance as a source of foodstuffs and raw materials and Perón’s belief that [by opening relations with the Soviet Union] in this way he could acquire influence against the United States.”³⁰ This intercourse led primarily to economic exchange, conducted through several bilateral agreements, indicating Argentina’s desire to remain unbound³¹; several trade missions and diplomatic meetings occurred working towards trade agreements.³² Though Soviet-Argentine relations were based on economic necessity rather than ideological affinity for communism, they served Perón’s vision of a neutral Argentina well; while causing the U.S. a great deal of consternation.

²⁸ Message from President Juan Perón to leaders of the world, July 1947, cited in Alexander, 175-176.

²⁹ Edward Crawley, *Argentina: A House Divided- 1880-1980* (London: C. Hurst Publishers, 1984), 120.

³⁰ Mario Rapoport, “Argentina and the Soviet Union: History of Political and Commercial Relations (1917-1955),” *The Hispanic American Historical Review* 66, no. 2 (May 1986): 239-285.

³¹ For more, see Rapoport.

³² Perón opened relations with the Soviet Union immediately after his election in 1946, inviting a trade mission to visit Buenos Aires and inviting the Soviets to open an embassy in Argentina. Argentina opened an embassy in Moscow in 1947. Cited in Rapoport, 253-254.

C. DECLINE

1. Economic Collapse - Enter the Domain of Losses

Even before Perón's model really began, there were signs that it was not sustainable. Though the economy had enjoyed growth and prosperity for the first three or four years of the Peronato, this growing bubble was unsustainable and waiting to pop. While wages and GNP were climbing, they hid underlying problems, as the autarkic development model was fundamentally flawed.³³ Perón had expected that as industrial capacity increased domestic demand would match suit, absorbing the greater production outputs. But the domestic market was simply too small, and export options were shrinking while the import of raw materials and finished goods was increasing. In 1946, though new European markets buttressed currency reserves as discussed above, imports from the United States nearly negated the growth. By the end of 1949, there were signs that the bubble was ready to pop, and by 1950, the economic situation was rapidly declining. Exports continued falling while imports, high since the end of 1946, continued to rise, Argentina was facing a major trade deficit. By the end of 1949, annual average imports had increased by 38% in raw materials, 49% in capital goods, 27% in fuels, and 143% in transportation, construction, and commerce related goods.³⁴ Most of these imports were needed to supply Argentina's growing industrial sector. In spite of all its efforts, Argentina was simply unable to find adequate markets for its goods; neither raw materials nor finished goods were being sold abroad in sufficient quantities. At the end of 1948, inflation was over 50% and on the rise as increased wages drove up the money supply.³⁵ A declining situation nearly collapsed in 1948, when the U.S. announced the Marshall Plan. Perón had hoped that the U.S. recovery plan for Europe would integrate Argentina as a producer for the vast European market. However, the U.S., fed up with Peronist egoism, decided that Marshall Plan Dollars would not be used to purchase Argentine goods. The European market was essentially closed off, and what could be sold found falling prices. "Instead of the anticipated five-year transition to autarky,

³³ For more a much more in depth treatment of all of the flaws of the Peronist economic development model, see Lewis, 177-210, "The Rise and Fall of Peronist Economics."

³⁴ Argentine economic decline statistics from Rock, 295-300.

³⁵ Lewis, 195.

markets shrank, export prices began to fall, and the supply of exportables diminished. The resulting steep fall in economic growth incited new political tensions.”³⁶

With the domestic economy unraveling, Perón began to lose control of his constituency as his ability to deliver promised rewards diminished. He began to counter by resorting to increasingly draconian methods.³⁷ He imposed wage restrictions, price controls, and import limitations, which did create moderate economic growth, but also decreased his popular appeal. But Perón early on began to realize that the Argentine economic crisis could not be solved internally. He began to seek help, and in doing so he needed to make concessions and alter his foreign policy.

2. Shifting Foreign Policy Direction

Perón’s response to the Marshall Plan announcement was the first demonstration of a changing foreign policy agenda. Perón met with the U.S. ambassador to Argentina, James Bruce, to plead for Argentina’s inclusion. He told the diplomat that his anti-American policies were domestic rhetoric and that the Third Position was “a [domestic] political device for use in peacetime...it has no application and would not even exist in the event of war between the United States and Russia.”³⁸ He carried this claim from rhetoric to action in 1950. Following the outbreak of hostilities in Korea, Argentina’s Congress at last ratified the three year-old Rio Treaty, which was pushed through Congress by the Peronist party against strong Radical opposition.³⁹ According to the *New York Times*, ratification of the Rio Treaty was *sine qua non* of a financial and economic agreement for U.S. assistance to Argentina.⁴⁰ And in fact, following this ratification, the U.S. Export-Import Bank extended a credit of \$125 million to

³⁶ Rock, 294.

³⁷ Perón took numerous efforts to stifle opposition and suppress criticism. In 1949, he issued a decree forbidding electoral coalitions and making the establishment of new political parties more difficult. Newspapers were “purchased” by members of Perón’s government or simply campaigned against. In the extreme, the paper *La Prensa* was expropriated by the government and its publication turned over to the CGT. The police were given expanded powers to enforce regime policies, strikes were restricted. The *Ley de Desacato* expanded the definitions of espionage and treason as well as increasing the penalties for libel, slander, and defamation against public authorities. Propaganda spread into the educational system as *justicialismo* was elevated to a “national doctrine.”

³⁸ Perón to Ambassador James Bruce, cited in Rock, 292.

³⁹ Whitaker, 233.

⁴⁰ *New York Times* in Whitaker 233 and Paz and Ferrari, 172.

Argentina.⁴¹ The U.S. also agreed to buy Argentine wool for use in Korea following Perón's endorsement of U.N. action.⁴² These combined measures produced a mild recovery in 1951, but this proved to be only temporary and did not fix the underlying problems with the development model. However, these events showed Perón that working with the U.S. could provide economic benefits which could ultimately save the economy.

Shortly after the treaty was ratified, Perón practically dismantled both his nationalist hard-line and the “third position,” applauding the U.N. action in Korea. He sent a message to the U.N Security Council claiming his preparedness to make contact with U.N. command in Korea. In response to an inquiry from the Security Council about the possibility of providing combat forces, Perón stated, “I answer that the United Command may enter into direct consultation with the Argentine government.” hinting towards the possibility of Argentine troops fighting on the Korean peninsula.⁴³ These actions spurred sharp domestic criticism. Ardent Argentine nationalists claimed that the new “position” was “kneeling to the United States.”⁴⁴ Arturo Frondizi, a prominent Radical party politician, claimed that these actions “bind [Argentina] to the destiny of the United States, without any possibility of choice on our part. We shall have war or peace as the statesmen and soldiers of that country decide.”⁴⁵ While Perón eventually restricted his actual aid to the Korean effort to grains and foodstuffs rather than soldiers, even marginal aid was contrary to the doctrine of non-intervention, which would dictate harsh opposition to anything other than self-determination and resolution in the Korean affair.

The visit of Milton Eisenhower, brother to the U.S. president, in 1953, shows the continuing change in the direction of Peronist foreign policy in favor of the U.S. Following the visit, the Argentine publication *Democracia*, owned by Peronist supporters, declared a “new era of friendship” with the United States in August 1953. Perón himself praised President Eisenhower as one of the most powerful leaders in the

⁴¹ Whitaker, 284.

⁴² Rock, 301.

⁴³ Paz and Ferrari, 170. See also, Whitaker 234.

⁴⁴ Whitaker, 234.

⁴⁵ Radical party leader Arturo Frondizi, cited in Whitaker 237. For more opposition from Frondizi, see Paz and Ferrari, 172.

Western World, claiming a “complete friendship” with the U.S.⁴⁶ This claim came from the same leader who had previously been adamantly opposed to U.S. action and U.S. interventionism in South America.

Even though Perón was abandoning his ideological foreign policy in an effort to save the economy through the hopes of increased market access, economic assistance, and generous loans, it continued to falter and more drastic measures needed to be taken. He began dismantling his economic foreign policy, admitting foreign capital and investment.⁴⁷ Fiat, Mercedes-Benz, and Kaiser were encouraged to enter the domestic automobile market. This FDI initiative culminated in 1955 with an agreement allowing Standard Oil access to the Patagonian oil fields, considered by nationalists to be the ultimate heresy.⁴⁸ Perón knew that allowing an American oil company access to Argentina’s strategic resources was risky. He made an address to Congress on 29 March, 1955, to explain the rationale for the deal:

We cannot extract our own oil because we haven’t got the money to invest in a company capable of doing it. Surely we have oil, but what good is it if it is two, three, or four thousand meters beneath the ground? In order to get it out we would need a lot of capital, which, unfortunately, we don’t have.⁴⁹

Perón began engaging in global politics less and less through the early 1950s. Rather than showing Argentina to be activist and taking a leadership role, he tended to watch from the sidelines and follow the lead of others. Though he did take one or two minor steps “out of line” with the U.S., he generally remained constrained and never again went directly against the U.S. He did engage in marginally activist regionally policies in the early 1950s, but not of the scope and magnitude of his earlier efforts, and with caution not to upset the U.S. Of note is his effort to export the Peronist labor movement through the creation of the Association of Latin American Unions (ATLAS).

⁴⁶ Whitaker, 241.

⁴⁷ Foreign investment had fallen from \$4.26 billion in 1945 to just over \$41.74 million by the end of 1950. By 1955, it was on the rise, climbing to \$1.86 billion before the Standard Oil deal. Source: Lewis, 205.

⁴⁸ Even worse than the actual oil involved, the contract with Standard Oil allowed the company to build any roads, airfields, docks, or communications lines for exclusive use, and the ability to import anything it needed. To the Radicals, these measures not only restricted access of the Argentine armed forces in a national emergency, but also could serve as “points of penetration for the United States military, which [it was felt] had its designs on Patagonia and the Argentine Antarctic.” Cited in Lewis, 207.

⁴⁹ Lewis, 206.

He also attempted to engage several South American nations in bilateral agreements, including treaties with Chile, Paraguay, Nicaragua, Ecuador, Bolivia.⁵⁰ While there is confusion as the ultimate purpose of these measures, it appears that they were based *mainly* on Perón's need to find trading partners to salvage the economy. Unfortunately, trading opportunities with South America provided no recourse for Argentina's problems, the market was simply too small.

D. DOMESTIC RISK SEEKING IN FOREIGN POLICY

Perón came to power based on what can be simply stated as a coalition of the armed forces and organized labor. As a result, he needed to craft policies which appealed to both sectors. With economic development severely declining and the domain of losses becoming more and more prominent, Perón found himself in a very difficult situation. He felt that the economic collapse could be marginalized by increased investment, but he realized that domestically there was insufficient capital to fund such investment. However, if he could encourage exterior investment to return and seek foreign aid, he could "plug the gaps." He could maintain overall growth by restricting wages and imports while imposing higher costs (such as longer work days and less benefits) on labor, but labor granted him what political legitimacy he still maintained. He had to either loosen up his nationalist ideology or risk upsetting the workers to the point of mass protest. He chose to drop the nationalist ideology.

Thus, from 1949 onward, Perón limited the magnitude of his foreign policy endeavors hoping to curry favor with the U.S., seeking both foreign aid and market access. There was no guarantee that this change would actually produce the desired results, and in fact it did not, he only received limited amounts of aid and marginal access to U.S. and European markets. But at home, he produced a backlash. His opposition, characterized by the Radical party and upper military elite, grew increasingly discontent

⁵⁰ ATLAS was created in May 1952 with the official task of spreading Peronist labor doctrine, but Perón actually hoped to use it as a vehicle for creating new trade opportunities within South America. Cited in Rock, 308. There is evidence that Perón sought a complete union with Chile, but Perón contradicts himself by first claiming he desired a union and then denying the statement. The original treaty set proposed by Perón to Chilean President Carlos Ibañez reportedly included political, military, and cultural affairs. However, the ultimate outcome only dealt with economic issues, and was not ratified by the Chilean government. Cited in Crassweller, 266.

with the regime, eventually pushed over the top as he not only abandoned nationalism but invited the wolf to the flock. Perón was taking an extremely risky gamble in both pursuing a pro-Western foreign policy and in allowing foreign investment to return. But Perón was correctly expecting that the masses would remain loyal in spite of these moves, but he had upset the opposition to the breaking point. On the eve of his fall, Perón considered arming workers in order to hold off the unfolding coup, but realized that it “would only have led to a massacre.”⁵¹ Perón’s gambit almost paid off, but he had pushed his disloyal opposition over the edge with the Standard Oil deal, and he was overthrown in September, 1955.

E. CONCLUSION

When Juan Perón came to power in 1946, Argentina was clearly in the domain of gains, and was headed towards further gains. The economy was improving, growth was apparent, and the prospects for the future were extremely promising given Argentina’s economic position vis à vis the rest of the world. “Never before, and never since, did [Argentina] have such an opportunity to make a quantum leap forward in economic development.”⁵² Given this situation, Perón pursued a domestically safe foreign policy which appeared downright hostile to the rest of the world, particularly the United States. Perón took every opportunity to interfere in the U.S. agenda and assert its own power and prominence, fulfilling nationalistic promises to his people.

But the economic development basket into which Perón placed all his eggs fell, and the system began to unravel as early as 1948. To counter, Perón began risk seeking behavior to maintain the level of prosperity, seeking foreign aid and markets, and eventually investment. He became friendlier to the U.S. and backed its actions in international fora. Perón ‘s activism became increasing subdued, less obtrusive to U.S. interests, and increasingly driven by desperation. Towards the end of the Peronato, Perón’s international flamboyance nearly vanished. This change may have been a safe move on the international stage, for it could provide income and possible recovery, but a domestically dangerous move given the nationalistic make up of his support coalition and the general nationalism of the Argentine population.

⁵¹ Lewis, 223.

⁵² Ibid., 178.

Thus Juan Perón's foreign policy provides a good example of the two level nature of prospect theory. When in the domain of gains, he pursued a domestically safe foreign policy, enabling him to maintain political support. But once he entered the domain of losses due to an economic collapse, he began to pursue foreign policies that were domestically risky in order to maintain economic prosperity created by the domain of gains. He gambled, and in the end he lost.

III. THE MILITARY JUNTA (1976-1983): BUREAUCRATIC AUTHORITARIANISM AND INTERNATIONAL WAR

A. INTRODUCTION

In March of 1976, the second era of Perón came to an anti-climatic end as a military coup overthrew the government of Isabel Perón, the wife and heiress of the famous populist leader of the 1940s and 50s. The military assumed power of a nation that was being torn apart by economic strife¹ and terrorist insurgency, led by a group of guerillas known as the *Montoneros*.² The coup was generally popular, as the people of Argentina sought order in the midst of the chaos that had taken hold of their nation in the past several years. The people got order, but of a magnitude never expected. Following the coup, the military laid down a regime based on the concept known as the Process of National Reorganization. (*Proceso de Reorganización Nacional*) This regime, which ruled until 1983 and spanned three separate governing military juntas, set about reinstituting Argentine greatness through a series of broadly defined goals. It sought to destroy the guerilla insurgency, modernize the economy through the introduction of market oriented orthodoxy, eliminate government corruption, and to reform the education system.

Under this system, Argentine society was subjected to repression the likes of which it had never before seen. In fighting the terrorists, the military waged a “dirty” war against its own people. This war had many casualties; between 1976 and 1983, nearly 15,000 Argentines became “disappeared” as they were kidnapped by the military and

¹ When the military assumed power in 1976, the annual inflation rate stood at 920%, the GDP was down by 4.4% (the first quarter of 1976), the gross investment was down 16.7%, the budget deficit represented 13.5% of the GDP, and the balance of payments deficit reached \$600 million, more than the exchange reserves. Source: Paul H. Lewis, *The Crisis of Argentine Capitalism* (Chapel Hill: The University of North Carolina Press, 1990), 448. For more on the economic collapse of 1976 and the events which precipitated it, see Lewis, 441-450 and David Rock, *Argentina 1516-1982: From Spanish Colonization to the Falklands War* (Berkeley: University of California Press, 1985), 365-369.

² The *Montoneros* were a radical leftist faction of the Peronist party who had been denounced by Perón in 1974 after a series of kidnappings and killings, including the kidnapping and execution of former President, Pedro Aramburu. There were other leftist groups conducting attacks, including the *Fuerzas Armadas Peronistas* and the *Fuerzas Armadas Revolucionarias*. The *Montoneros*, however, acquired a special notoriety.

taken to detention centers for interrogations under torture.³ In addition to outright repression, the military governed by fear, essentially freezing civil-society. Ironically, the junta proved to be relatively successful in attaining some of its stated goals. By 1980, the guerilla groups were gone, kidnappings began to wane, and it appeared that economic conditions were beginning to improve.⁴ But this sense of success was to be short-lived; by the end of 1981, domestic conditions were declining due a mounting economic collapse.

On April 2, 1982, the junta, then led by General Leopoldo Galtieri, surprised the international community by launching an invasion of the Falklands/Malvinas Islands.⁵ The junta, not expecting the British to launch a full-scale counter-invasion, planned the invasion as a “touch and go” operation.⁶ However, the British did respond by sending a large naval task force to reclaim the islands. The British began military operations on May 1; on June 13, the Argentines surrendered. The Argentine armed forces suffered a

³ The number 15,000 is given by the National Commission on the Disappearance of Persons in 1985, and is cited in María José Moyano, “The ‘Dirty War’ in Argentina: Was It A War And How Dirty Was It?” in *Staatliche und parastaatliche Gewalt in Lateinamerika*, eds. Peter Waldmann and Hans Werner Tobler (Frankfurt: Vervuert Verlag, 1991), 53. However, the actually number is not agreed upon, with some estimates place the number as high as 25,000 or more. Source: William C. Smith, *Authoritarianism and the Crisis of Argentine Political Economy* (Stanford: Stanford University Press, 1989), 231.

⁴ The junta pointed to its successes and negated its failures. Its successes included a decline in inflation by 52.1%, a six-fold increase in foreign reserves, and a 75-fold increase in the deposits in private banks. Source: David Pion-Berlin, “The Fall of Military Rule in Argentina: 1976-1983,” *Journal of Interamerican Studies and World Affairs* 27, no. 2 (Summer 1985), 59.

⁵ The Falklands/Malvinas are a group of islands located roughly 400 miles off the Argentine coast in the South Atlantic. These islands belonged to the British, but were claimed by the Argentines dating back to the collapse of the Spanish empire in the early 19th century, when Argentina began asserting its rights to island based on the legacy of Spanish exploration. The islands hold no strategic resources (save the potential of the surrounding seas as a fishery) and are home to 2,400 persons (who claim British citizenry and have often expressed their desire to remain British subjects) and a half-million sheep.

⁶ According to Nicanor Costa Méndez, foreign relations minister under the junta, the aim of the invasion was not a military conquest but to redirect attention to the Argentine claim in light of failing international negotiations. This is confirmed by numerous sources. Admiral Jorge Anaya, commander of the Argentine navy and General Mario B. Menédez, appointed military governor of the islands, both substantiate that the initial intent of the invasion was not war, but an increased negotiating position. Sources as cited by John Arquilla and María Moyano Rasmussen, “The Origins of the South Atlantic War,” *Journal of Latin American Studies* 33 (2001): 739-771.

Nicanor Costa Méndez, *Malvinas: ésta la historia* (Buenos Aires: Sudamericana, 1993), Mario B. Menédez and Carlos Túrolo, *Malvinas: Testimoio de su Gobernador* (Buenos Aires: Sudamericana, 1983), Nora A Femenia, *National Identity in Times of Crisis: The Scripts of the Falklands-Malvinas War* (Commack: New York: Nova Science Publishers, 1996), 92-95.

dismal defeat, with only the Air Force performing with any degree of competency. The military was fully discredited, and had no choice after the war but to announce plans for a return to democracy the following year.

This chapter shall begin by discounting the popularly held belief that the junta invaded the Falklands/Malvinas to divert Argentine society away from swiftly declining domestic conditions. Though the war had the temporary effect of unifying the population, such was not the intention of the junta. I shall focus on two major decisions made by the junta, commonly perceived as one. The first decision was the decision to recover the Malvinas through the use of force rather than through continued diplomatic efforts. As previously stated, this action was not meant to initiate a war, but to force the British to come to the negotiating table ready to cede sovereignty to Argentina. It was based in large part on the declining position of Argentina in international negotiating fora and the fact that the resolution of other territorial disputes had proven unfavorable.

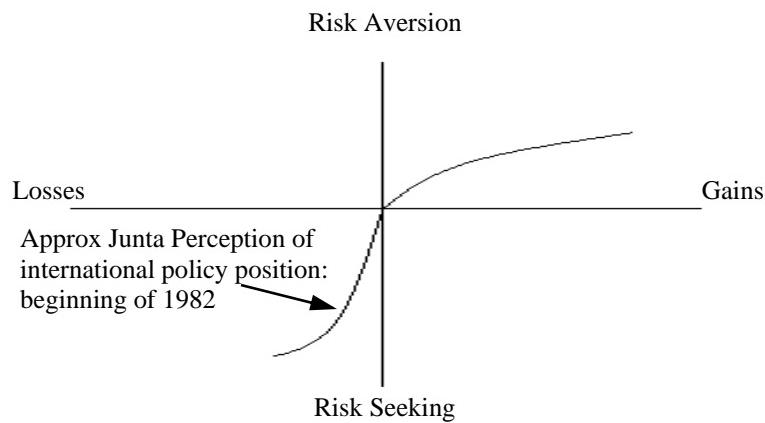


Figure 3.1 Junta Domain and Risk Seeking in Deciding to Invade

Thus, the junta found itself in an international domain of losses and engaged in risk-seeking behavior in order to reconcile these losses. (Figure 3.1).

But the junta didn't expect a British response, and when one came, its decision to stay and fight is noteworthy. Since popular belief holds that the ill-trained Third World army stood little chance against highly trained and equipped NATO forces, it is important

to understand why the junta would decide to risk losing a shooting war rather than accepting that their bluff had been called and recalling the invasion force. However, as prospect theory illustrates, the junta had little choice but to fight, because the domestic outpouring of nationalism following the invasion placed them so far in the domain of gains they had to pursue a safe policy by holding their position on the islands (Figure 3.2).

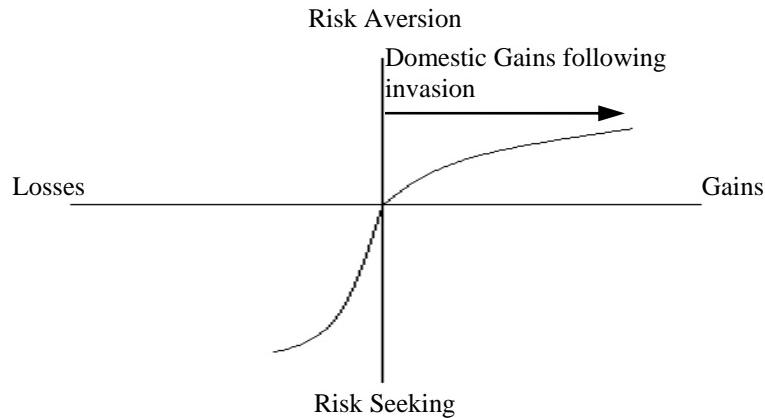


Figure 3.2 Domain of Gains Following Invasion of Falklands

Furthermore, the Argentine military had a relatively good chance of winning a shooting war against the British. While they were engaging in risk-neutral behavior internationally (the risk was by invading, not remaining on the islands), they pursued domestic risk-aversion by retaining the invasion force on the islands.

B. DOMESTIC DISTRACTION: THE COMMONLY HELD VIEW

One of the most predominant views on the causes of the South Atlantic War is the idea that the junta invaded the Falklands in order to produce popular domestic support, a “rally around the flag” effect, which would cause the Argentine people to negate the deterioration of their nation under a repressive government. This is the view put forward

by many contemporary analysts.⁷ Two sets of facts make this motivation appear to be dominant in the regime's decision making process, the lack of legitimacy and poor performance of the junta at the start of 1981, and the effect the invasion *did* produce in domestic Argentine society. These facts make it seem that the junta desired a nationalistic decoy, and a foreign war would make Argentine society, traditionally very nationalistic (see Chapter I) come together.

In looking at the war through the lens of history, it very much appears that this may have been the motivating factor for the decision to "recover" the islands. The regime, initially successful in its plan to reorganize Argentine society to reclaim the "greatness" of the nation, had fallen on its face. The legacy of the dirty war was beginning to build. Opposition to the regime was increasing and becoming more public which was evidenced in March 30, 1982, when the military was forced to suppress a massive labor demonstration in Buenos Aires; the largest public demonstration since the 1976 coup. The economy had been collapsing since the end of 1979. Between December, 1979 and March, 1981, the total external debt more than doubled, from \$8.5 billion to \$25.3 billion, climbing to 42% of the total GDP.⁸ With massive trade deficits of over \$500 million, a currency rate that was overvalued by 70%, and interest rates to foreign creditors that could not be sustained.⁹ By 1982, a crisis had developed based on capital flight, worsening balance of payments deficits, and growing foreign debt increasingly held in re-negotiated short term loans with higher interest rates. The peso depreciated over 600%, the GDP fell by 11.4%, and real wages decreased by 19.2%.¹⁰

⁷ Arquilla and Rasmussen, "The Origins of the South Atlantic War," does a thorough job of discrediting this commonly held perception. Jack Levy describes the invasion as a means "to consolidate internal political position." Jack Levy, "Domestic Politics and War," in *The Origin and Prevention of Major Wars*, eds. Robert I Rotberg and Theodore K Rabb (Cambridge: Press Syndicate of the University of Cambridge, 1988), 94. Carlos Moneta describes the timing of the invasion as caused by "a sudden loss of political space for the government increasing its vulnerability" in Carlos J. Moneta, "The Malvinas Conflict: Analyzing the Argentine Military Regime's Decision-Making Process," in *Latin American Nations in World Politics*, eds. Heraldo Muñoz and Joseph S. Tulchin (Boulder: Westview Press, 1984). According to *Time Magazine*, the attack was a 'coup de théâtre designed to line up Argentine public opinion behind a faltering government.' "Gunboats in the South Atlantic," *Time* 119, no. 15 (12 April 1982), 42.

⁸ Rock, 373. For a much more detailed account of the collapse of the Argentine economy from 1979 to 1982, see Smith, 242-255.

⁹ Guillermo A. Makin, "Argentine Approaches to the Falklands/Malvinas: Was the Resort to Violence Foreseeable?" *International Affairs* 59, no. 3 (Summer 1982), 398.

¹⁰ Ibid., 374.

With such a tremendous collapse, contrary to the military's plan to return to greatness and modernize the economy, it is understandable that the population was upset with the performance of the junta. That the junta would seek a distraction seems to be a plausible argument.

In looking at the war after the fact, the rush of public support following the invasion may create the perception that the regime sought to bolster public support through invasion. Massive demonstrations took place in the streets and the *Plaza de Mayo* became filled with flag waving citizens showing their support for the regime and for the invasion. Even the highly educated sectors of society showed their unconditional support. As one professor said:

We are drunken with patriotic feelings, we are standing proud, because we are witnesses and participants of a rescue promised to the blood of our forebears. National joy is as wide as understandable.¹¹

Leaders of the dominant political parties¹² gave their consent and active collaboration to the regime in the war effort, sending missions abroad to gain diplomatic support for the Argentine position. Perhaps more telling, those who had been persecuted by the military regime gave their whole-hearted support to the regime in response to the invasion. Saúl Ubaldini, leader of the labor confederation (CGT) had been imprisoned following the March 30 labor demonstration. Yet he offered to head the union delegation traveling to the islands for the inauguration of the military governor. The outpouring of popular support for the regime once the invasion had been completed was enormous, and unfortunately for the junta and for Argentina, unexpected. As shall be demonstrated below, this outpouring surprised the junta and forced them to change the nature of the operation in the Falklands/Malvinas when the British decided to retaliate.

The fact is, the military didn't need to create popular policies among the Argentine population. The regime had no need to generate consensus among the Argentine population, for it was a *highly repressive* authoritarian regime. While there was a need for the junta to create policies which appealed to the elite oligarchy with

¹¹ Miguel J. Rodríguez Villafañe, Professor of constitutional Law at Universidad Nacional de Buenos Aires, writing in *La Nación*, cited in Femenia, 96.

¹² With exception of the Movimiento de Integración y Desarrollo (MID), which severely criticized the move, and a few dissenters from the UCR and the Peronist party.

whom it was collaborating, the military did not require the support of society at large. The dirty war had created a climate of fear so strong that civil society essentially fell apart. The press was censoring itself out of fear caused by the “disappearances” of several journalists who had criticized the regime.¹³ As John Arquilla and María Rasmussen argue, “after 1976, military juntas could afford to govern without being liked.”¹⁴ This was apparent in their economic policies, which were carried out by implemented harsh austerity measures severely affecting the living standards of most Argentines (except for the elite oligarchy). Yet because the military had so successfully demobilized the popular classes through fear and repression, it had no need to formulate policy to “soften the blow.” Rather, it stuck to its reform plan in spite of the social costs, illustrating both its insulation from social pressures and its determination to “stay the course.”¹⁵ Though the second leader of the junta, General Roberto Viola (March 1981-December 1981) discussed the possibility of remobilizing civil society and began to negotiate a transition towards democracy, General Leopoldo Galtieri (who overthrew Viola in a palace coup) demonstrated his determination to curb opposition with the suppression of the March, 1982 strike. The military maintained fear and repression even as it began to allow the civilian sector an increasing role in political society.

Arguing that the military sought to divert attention away from poor economic conditions in 1982 when it ignored public complaints in 1976 is not plausible. While several structural factors changed between 1976 and 1982, Galtieri demonstrated in March that his regime was still one to be feared and that the *Proceso* would continue in spite of enduring hardship. Therefore, the military was not seeking a “scapegoat” to divert public attention away from a collapsing economy, because it was generally unconcerned with public opinion or issues large scale legitimacy. As Joseph Tulchin puts it, “there was no formal political opposition to the regime, and there were no organized

¹³ Joseph S. Tulchin, “The Malvinas War of 1982: An Inevitable Conflict that Never should have Occurred,” *Latin American Research Review* 22, no. 3 (1987), 128. In addition to the disappearance of journalists, the regime had been known to pull issues of periodicals off of the stands or close down news organs which had expressed opposition. The editor of the only media journal which retained an open commentary, *The Buenos Aires Herald*, was forced into exile following threats against his life. Tulchin, “Authoritarian regimes of Argentina,” 189.

¹⁴ Arquilla and Rasmussen, “The Origins of the South Atlantic War.”

¹⁵ Pion-Berlin.

groups that systematically subjected the actions of the government to public discussion and whose criticism represented a factor that the government had to take into account.”¹⁶ There were other reasons the military decided to “recover” the Malvinas, and they had both domestic and international dimensions.

C. SEPARATE PROCESSES FOR INVASION AND FIGHTING

With the commonly held view of war as a *coup de théâtre* to increase domestic opinion of the military regime discredited, it is now necessary to analyze the decision-making of the junta in its conduct of the war. This requires a two-fold analysis, for the junta made two major choices which led to war. The first was the decision to carry out the “touch and go” operation in order to recover the islands; this choice led to the launching of the invasion of the islands. The second was the decision to stay and fight once it became apparent that the British intended to seek recourse through military, rather than diplomatic, means. The junta had not intended to fight a war,¹⁷ so why did it suddenly decide to fight one? Prospect theory provides valuable insight into the decision making process of the junta in both instances.

D. THE DECISION TO INVADE AS A FAILURE OF FOREIGN POLICY OPTIONS

The junta had been seeking territorial gains since coming to power in 1976. One of the goals of the *Proceso* was the reinstitution of Argentine “greatness” and salvation from third world status, along the traditional lines of exceptionalism discussed in Chapter I. Furthermore, the junta laid forth the securing of national frontiers, with both Chile on the Beagle Channel and in the Malvinas, as one of its stated goals set in March 1976.¹⁸ The junta intended to engage the British in bilateral negotiations over the South Atlantic dispute. These negotiations had commenced in 1979, but were obviously failing by February 1982. To make matters worse, the year 1983 was to mark the 150th anniversary

¹⁶.Joseph S. Tulchin, “Authoritarian Regimes and Foreign Policy: The Case of Argentina,” in Heraldo Muñoz and Joseph S. Tulchin, eds. *Latin American Nations in World Politics* (Boulder: Westview Press, 1984), 189.

¹⁷ See Moneta, 127, Femenia, 92, Pion-Berlin, 70, Makin, 403.

¹⁸ Immediately following the coup in March, 1976, the junta made a series public pronouncements stating that its priorities for the nation were: elimination of internal subversion, reaffirmation of Argentine greatness, securing of national frontiers, termination of the nation’s dependence on imported energy, strengthening and modernization of the nation’s economy. Source: Tulchin, “Authoritarian Regimes of Argentina,” 182.

of the British occupation of the islands, providing the possibility of an increased British sense of ownership, further reducing the Argentine bargaining position and curtailing an ultimately favorable resolution. In 1977, Argentina and Chile had nearly gone to war over islands in the Beagle Channel, following a decision in Chile's favor by the International Court of Justice awarding the islands to Chile. War was avoided with the decision to submit the case to the Vatican for Papal mediation, the results of which were expected to be released with Chile again as the victor. Finally, the regime was concerned over its claims to Antarctica. With the Beagle Channel dispute expected to end in Chile's favor, a demand by that state of a 200 mile projection from its shores into the South Atlantic would cut off Argentina from her Antarctica, a fact compounded the upcoming 1991 revision of the Antarctic treaty, jeopardizing its territorial claims to the continent.¹⁹ The junta was facing international losses on three major geo-political frontiers.

The junta realized that its international territorial goals were failing and that its foreign policy was not producing the desired geo-political outcomes. The failure to meet territorial goals would represent a failure of a major goal of the *Proceso*, which would be unacceptable. Furthermore, the government faced a forced acceptance of reality; that it could not control territory perceived as Argentine. As discussed in Chapter I, this territorial resolution was not a true loss, but for Argentina this realization would be computed as a loss given their genuine belief that this was a part of the nation.²⁰ At this point, the junta found itself in the domain of losses internationally. It was losing prestige and territory that it felt rightfully belonged to Argentina. In order to reconcile this fact and save face, the regime engaged in risk-seeking international behavior, by launching an invasion. As previously discussed, the stated purpose of the invasion was not to initiate a war, but merely to force the British to continue negotiations and grant the Argentines an “ace in hole” at the table. However, the fact that the British were not expected to retaliate militarily does not negate the fact that the move was a risky one. No matter how great the motivating bias of the junta or how poorly it perceived British intentions, an act of

¹⁹ Virgina Gamba-Stonehouse, *International and Inter-Agency Communication Failures in the Period Previous to and During the Falkland/Malvinas War of 1982 Between the United Kingdom and Argentine*. Unpublished Manuscript, 1991. Cited in Femenia, 93.

²⁰ Carlos Escudé, “Argentine Territorial Nationalism,” *Journal of Latin American Studies* 20, no. 1 (May 1988): 139-165.

force against another nation's sovereign territory is a risky proposition. While the junta did not *expect* a British military retaliation, the *possibility* existed and it certainly wasn't guaranteed that the British would sit idle; the regime was gambling on British indifference to the ultimate outcome of the negotiations and overall lack of resolve to reclaim the islands.

The junta may have accurately perceived signals indicating that the British were not interested in maintaining a presence on the Falklands, creating a perception that the British would not respond militarily should the Argentines take the islands by force. This is a commonly accepted argument as to why the junta felt that invading the Falklands was *not* a risky maneuver.²¹ However, in the run up to the invasion, one incident gave the junta a clear indication that the planned operation was riskier than initially thought and should have raised a red flag in the *Casa Rosada*. This incident involved the Argentine seizure of the South Georgia Islands by a commercial merchant.²² The navy decided to use this incident to increase Argentina's South Atlantic claims prior to launching its invasion, expecting a minimal short run diplomatic response from the British and long run leverage over the British in the ultimate negotiated outcome of the entire dispute. Unfortunately, the junta was mistaken, as a group of British scientists observed the Argentine flag-waving maneuver and notified the commander of a British Marine detachment stationed at Port Stanley on East Falkland. The situation escalated into a diplomatic crisis. The British sent the Marine detachment, aboard *HMS Endurance*, to float off the coast of South Georgia and await orders. The Argentines eventually responded to this move by sending three warships and a marine detachment to "protect"

²¹ Among the signals the Argentines picked up on: *HMS Endurance* was scheduled to be removed from the area, the Falkland islanders had been denied full British citizenship, the Antarctic Survey station on South Georgia was to be closed, the British defense ministry was facing massive budgetary restrictions, imposed by the Treasury and requiring reduced fuel expenditures, making a long distance naval operation unlikely.

²² An Argentine scrap metal merchant, Constantino Davidoff applied and received permission from the British embassy to clear an abandoned whaling station at Leith on South Georgia Island. However Davidoff failed to follow the British instructions to request official authorization from the British Antarctic Survey base on South Georgia, and proceeded to raise the Argentine flag and go to work. Whether or not Davidoff coordinated this move with the Argentine navy is still speculated upon. However, this event created an immediate diplomatic crisis which may have forced the junta to advance its timetable for invading the islands, the invasion was originally planned for October/November 1982.

the workmen, essentially in a direct challenge to the British. That weekend, the Argentine fleet in Puerto Belgrano made ready for the invasion.²³

The British response to the Argentine provocation had been much more than a marginal diplomatic response; it had been a clear military response. Knowing this small provocation had resulted in a military response informed the junta that there was a better than anticipated chance that the British would respond to an Argentine invasion with force. This fact was made blatantly obvious the night prior to the invasion in a conversation between General Galtieri and President Reagan. Reagan told Galtieri, “If the only option is a military invasion, I assure you, Mr. President, that the British will respond militarily...Mrs. Thatcher is a decisive woman and she will have no choice but to fight back.”²⁴ The Argentines had seen the signs. While they may not initially have expected a British response, they were aware that it was possible at the outset of the invasion. Thus, they had enough information to recognize that the invasion of the Falklands/Malvinas was a risky move in spite of their prior beliefs to the contrary.

E. THE DECISION TO STAY AND FIGHT

While the junta did not believe that the British were willing to commit the resources and effort to reclaiming a territorial gain 200 years old which held no value, they were proven wrong when on 5 April a British naval task force set sail from Portsmouth headed for the South Atlantic and on 7 April the British announced a 200 mile exclusionary zone around the islands. (Britain’s decision to respond with force to its loss of a possession it cared little about provides another interesting application of Prospect Theory, but is a discussion best saved for another time.) At this point the junta had no choice but to realize that their gamble had failed and that their action had provoked a military response, the stated goal of forcing negotiations was a failure. Rather than causing the British to return to the negotiating table in a disadvantageous position, the junta found itself on the verge of going to war with one of its oldest allies and one of the most powerful nations in the world. However, the junta found itself

²³ For a much more detailed description of the South Georgia incident, see Max Hastings and Simon Jenkins, *The Battle for the Falklands* (New York: W.W. Norton & Company, 1983), 54-60.

²⁴ Transcript of a conversation between General Galtieri and President Reagan, 10:10 pm on April 1, 1982. Cited in Gary W. Wynia *Argentina: Illusions and Realities* (New York: Holmes & Meier, 1986), 15 citing O.R. Cardoso, R. Kirschbaum and E. Van Der Kooy, *Malvinas: La Trama Secreta* (Buenos Aires: Sudamericana-Planeta, 1983).

playing a two-level game, and had cornered itself domestically, finding itself in the Domain of Gains among its “constituency.”

While the junta had expected an outpouring of public support for the invasion based on the constant nationalistic fervor of the Argentine people, the magnitude of the outpouring was really quite surprising. For starters, 250,000 people crowded into the *Plaza de Mayo* on April 6, waving flags in support of the occupation. As previously stated, prisoners of the March 30 labor demonstrations volunteered to help fight for a regime they had previously denounced. Even exiled guerilla fighters volunteered to come back to Argentina and fight for this cause, in spite of the fact that repatriation would subject them to the death penalty for their prior actions. The Mothers of the *Plaza de Mayo*, among the regimes most ardent dissenters, even went in for flag waving.²⁵ The press (which was to a large degree self-censored) fueled this fervor with commentary:

In Argentina, it is not a military dictatorship that is fighting . It is the whole people, her women, her children, her old people, regardless of their political persuasion. Opponents to the regime like myself are fighting for our dignity, fighting to extricate the last vestiges of colonialism. Don’t be mistaken, Europe, it is not a dictatorship that is fighting for the Malvinas, it is the whole nation.²⁶

There is controversy over the intent of this public outpouring. To a large degree, it appears to be dual-natured, granting support to war-effort and to the regime which initiated the war effort. For example, a political commentary in *La Nacion* exhorted “old wounds will be repaired.”²⁷ However, many felt that the junta, while right in invading the Malvinas, was still wrong overall. Many of those in the *Plaza de Mayo* were chanting “*Malvinas, sí! El gobierno military, NO*”.²⁸ Some political leaders recognized the unifying effect of invasion but discounted that the military had erased its human rights record:

The national problem of Argentina has been postponed because of warlike emotions resulting from the Malvinas War. The basic realities of the country have not changed: underemployment continues to rise, the worker’s salary continues to decline....The military regime claims that President Galtieri is not

²⁵ Arquilla and Rasmussen, “The Origins of the South Atlantic War,” 749.

²⁶ Ernesto Sabato, *La Nacion*, (29 April 1982), 9. Cited in Femenia, 188.

²⁷ Cited in Femenia, 97.

²⁸ Wynia, 16.

the same, but the only thing that has changed has been the introduction of a great confusion in the feelings of patriotism, preventing a debate on the important questions of today.²⁹

That the invasion actually made the Argentine public *forget* about their declining economic status or their repression during the “dirty war” is highly unlikely. However, it seems that the invasion produced a temporary euphoria providing some manner of justification in the eyes of a large percentage of the population. It certainly did produce a unifying effect and brought together a nation that was falling apart. However, this was not the intention of the junta, as discussed in the previous section, and the magnitude of the effect was something the junta simply wasn’t ready for.³⁰

So great was this public support, that the junta found itself unexpectedly in a domain of gains, experiencing a level of public support it had not encountered since the coup of 1976. The only choice it had domestically was to pursue a risk-averse course of action by carrying the invasion to its conclusion and defending the islands against the British task force. Withdrawing in the face of such nationalistic fervor would cause the junta to lose support comparable to losing the war and its domestic alliance with the oligarchy would collapse.³¹ As discussed below, fighting the war gave it a realistic chance of victory, domestically and internationally. Winning the war would give it an extremely powerful bargaining chip in the transition to democracy, allowing the military to spell out the terms and likely establishing a tutelary role for itself.³²

If the military knew it was likely to lose a war with the British, then withdrawal from the islands would have been the safer option, for the losing regime in a war is subject to harsh treatment, internationally and domestically. However, the Argentine

²⁹ Radical Party ex-deputy Osvaldo Alvarez Guerrero in the *Buenos Aires Herald*, cited in Femenia, 98.

³⁰ Arquilla and Rasmussen, *The Origins of the South Atlantic War*, 749.

³¹ Femenia, 198 discusses the magnitude of the outburst of nationalistic pride, agreeing with William Bloom’s theory that “national identity mobilizations [may go] beyond government control and take hold and carry the best political design astray.” Citing William Bloom, *Personal Identity, National Identity and International Relations* (Cambridge: Cambridge University Press, 1990). For discussion of the domestic fate of regimes who lose wars, see Bruce Bueno de Mesquita, Randolph M. Siverson, and Gary Woller, “War and the Fate of Regimes: A Comparative Analysis,” *American Political Science Review* 86, no. 3 (September 1992): 638-646.

³² After the defeat, Galtieri stated that his intentions were to call for gradual elections: Parliamentary and Presidential, and he would have posed his candidate with the certainty of an “easy victory.” Néstor Montenegro and Eduardo Aliverti, *Los Nombres de la Derrrota* (Buenos Aires: Ediciones Nemont, 1982), 23, cited in Moneta, 127.

armed forces actually had a relatively good chance of defeating the British based on numerous factors. First of all, the British were a declining world power, no longer the mighty global force of the 19th and early 20th century. Budgetary problems had led to a decrease of funds to the Admiralty, while Argentine military budgets had been rising since 1972. The force which the British sent to retake the islands was purely *ad hoc*, thrown together in a last minute effort to produce a fighting fleet.³³ Furthermore, the British navy of the early 1980s was overwhelmingly an anti-submarine force designed to fight with NATO in the North Atlantic against the Soviets, not to conduct long range full scale naval engagements and amphibious operations.³⁴ On the other hand, the Argentine navy was considerably better suited to conduct ship on ship warfare and had prepared its navy for such engagements in the South Atlantic against possible Brazilian and Chilean opponents.³⁵ It had built its fleet around the idea of being regionally dominant in the South Atlantic, and possessed a broad range of naval capabilities. Furthermore, the Argentines had a tremendous advantage in aircraft, allowing it to sortie land based aircraft, some of which could carry the *Exocet* anti-ship missile.

In overall force structure for the operation, the Argentines had a narrow numerical advantage, in most areas,³⁶ though the British had a qualitative advantage in training and professionalism. However, it was questionable that training and professionalism could overcome the force ratio deficit the British faced; classically the attacker seeks a 3:1 ratio in offensive operations, but in ground troops the British found themselves numerically

³³ Hastings and Jenkins 72-98, detail the creation of the task force which took to the South Atlantic.

³⁴ One of the two aircraft carriers of the British task force, was designated as an anti-submarine carrier. The *HMS Hermes* underwent conversion to an ASW role in 1976. The *HMS Invincible*, though designated as a light carrier, also was intended primarily as an ASW platform, carrying only five (eight during the war) fixed wing aircraft as opposed to nine ASW helicopters. Air Defense was to come from only three surface ships of the Type 22 class, armed with modern missiles, accompanying the fleet. These destroyers were also designed primarily for ASW operations. Source: John T. Moore, ed., *Jane's Fighting Ships: 1981-1982* (New York: Jane's Publishing Company Limited, 1981).

³⁵ As an indication, the Argentine aircraft carrier *Venticinco de Mayo*, was outfitted with eighteen fixed wing aircraft, including the *Super Entendard* capable of firing the *Exocet* anti-ship missile. Source: *Jane's Fighting Ships: 1981- 1982*.

³⁶ In perhaps the most important areas, the Argentines had superior numbers. In aircraft, the Argentines had an advantage of 3.9: to one, a substantial advantage, especially considering that the British were fielding short range *Harrier* aircraft not designed for full-scale naval air operations. In ground troops, the Argentines had an advantage of 1.28:1. Source Arquilla and Rasmussen, "The Origins of the South Atlantic War, 756.

inferior, at 1:1.28. With the right preparations the Argentine position may have been unassailable without tremendous casualties for the attackers.

That the British won the war, does not mean they had to, and that the Argentines chose poor strategic and tactical options (such as keeping their navy in port following the sinking of the *General Belgrano*, keeping their best trained troops along the Andes, or that the Air Force chose to attack in waves of four instead of in massive assaults) doesn't mean that the structural conditions for victory were not there. Many analysts at the time felt that the islands could not be retaken once captured.³⁷ The Argentines had a very real chance of winning an engagement with the British, thus fighting the war was a small gamble, but it was one with even odds, a "toss up."³⁸ As Hastings and Jenkins put it, sending the task force against the better equipped Argentine fleet was "a strategic gamble."³⁹

F. CONCLUSION

In the spring of 1982, the Argentine governing junta led the nation headlong into a war with one of the most developed and powerful nations in the world. It did so to fulfill part of its "mandate" as dictated by the *proceso*, the securing of territorial boundaries. Though a degree of distraction may have been a partial motivator as to why the junta invaded the Falklands/Malvinas, this popular argument lacks enough explanatory power to analyze the decisions made by Galtieri and military followers. Prospect Theory provides a tremendous insight into the actions of the Argentine government and the decisions they made in order to reclaim the islands and fulfill their mandate.

The junta made two different decisions which require separate analysis and are alternatively motivated. The first was to carry out a military recovery operation to take the islands from the British, the second was to stay and fight when it became obvious that the British planned to respond with force. The recovery operation was not intended as a pretext for war. Rather, the junta expected that the British would not respond with military action but with a return to negotiations. They felt this was necessary, as they had

³⁷ For a deeper discussion, see Arquilla and Rasmussen, "The Origins of the South Atlantic War, 757-758.

³⁸ Ibid., 757-758.

³⁹ Hastings and Jenkins, 78.

been unsuccessful in seeking a desirable outcome to the Beagle Channel dispute with Chile, which had almost led to war in 1978. Furthermore, British negotiating strategies indicated that the British had no intention of realistically discussing the issue of sovereignty anytime soon. As territorially consolidation was among the primary stated goals of the *proceso*, the military's entire reason for seizing power in 1976; it was coming up at a loss and pursued a risk-averse strategy to seek a desirable resolution. The move was risky because it was very possible that the British would respond with force, as seen through both the South Georgia incident and very clear signaling from the United States. The junta gambled on British lack of resolve, and lost.

Once the invasion occurred, Argentine society gave uproarious support to the action and in a large measure to the regime, which now found itself in a corner. Seeing itself in a domestic domain of gains, it chose to pursue a strategy that was domestically risk averse; defending the islands. This was a risk-averse strategy because withdrawal would have created loss of support among necessary domestic allies so great it is unlikely the junta could have remained in power. Furthermore, the Argentines had a great chance of winning the war given structural military conditions, and a victory would ensure the armed forces a strong position from which to negotiate the return to democracy.

Thus, the junta decided that the armed forces would stand and fight. But the Argentines lost, due to a combination of poor training and operational/tactical ineptitude. The military was fully discredited, the loyal opposition defected, and Galtieri was forced to resign three days after the surrender at Port Stanley. His successor, Reynaldo B.A. Bignone, had no choice to but to be negotiating the return to democracy.

IV. CARLOS MENEM: TOWARDS A NORMAL PLACE IN THE WORLD

A. INTRODUCTION

In July 1989, Carlos Menem was inaugurated as the President of Argentina; a nation that was deteriorating in the face of hyperinflation. President Raul Alfonsín stepped down six months ahead of schedule, deeming the nation “ungovernable” due to both economic and civil strife. After months of decline, angry Argentines had taken to the streets in protest and in riots, looting groceries stores in Buenos Aires. This economic decline was the culmination of years of poor economic performance caused by poor planning dating back to the Peronato. Thus, Menem found himself deep in a domain of losses immediately upon assuming office (Figure 4.1). Given the terms by which he came to office, inheriting a nation collapsing under its own economy, Menem’s entire administration was to be founded on a basis of economic crisis handling. From the outset, Menem’s policy was directed by the need to save the Argentine economy, which he sought to do through a strong neo-liberal stabilization plan. This move was somewhat risky, for Menem was elected from the *Partido Justicialista* (PJ- Peronist party), the party which had advocated strong statist economic planning of the type initiated by Perón in the 1940s. Yet since Argentine society had endured such economic despair for so long, Menem encountered relatively little resistance to his economic reform model.

To complement this economic reform model, Menem undertook a drastic revision of Argentine foreign policy, seeking rapprochement and deepening alignment with the West, and the United States in particular. Though a safe move internationally, this was a risky move domestically given the traditional Argentine sense of nationalism and exceptionalism (see Chapter I) and the current state of civil-military relations. (Figure 4.1)

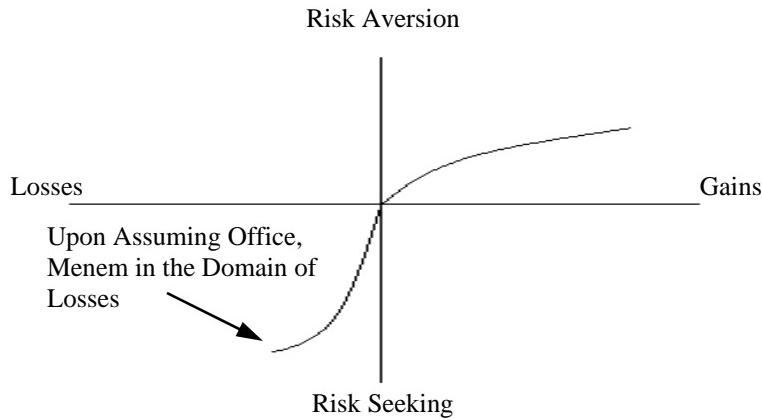


Figure 4.1 Menem; Domain and Risk Analysis- 1989

But Menem was willing to accept this domestic political risk because he recognized that Argentina was in the domain of losses, therefore making decisions about policy outcomes based on a referential position rather than a normative rational outcome.

B. A TUMULTUOUS PAST: THE DOMAIN OF LOSSES

There can be little doubt that when Menem assumed office in July 1989, Argentina was in the domain of losses. In the short run, Argentina was experiencing a weekly inflation rate of 50%,¹ with a compounded annual rate of 50,000,000%.² The overall inflation rate was 114.5% in June.³ Riots were occurring in supermarkets due to price increases *hourly* as the market attempted to compensate for inflation. Between 1989 and 1990, GDP average annual growth was -3.1%, while per capita GDP was down to -4.4%.⁴ By the end of 1989, nearly 40% of households in Argentina were living at or below the poverty line, putting nearly 12 million citizens in poverty!⁵

¹ Javier Corrales, "Do Economic Crises Contribute to Economic Reform? Argentina and Venezuela in the 1990s," *Political Science Quarterly*, 112, no. 4 (Winter 1997-1998), 628.

² James W. McGuire, *Peronism without Perón* (Stanford, Stanford University Press, 1997), 236.

³ Kurt Weyland, "Risk Taking in Latin American Economic Restructuring: Lessons from Prospect Theory," *International Studies Quarterly* 40, no. 2 (June 1996), 192.

⁴ GDP indicators from Central Banco of Argentina, and cited in Felipe A. M. de la Balze, *Remaking the Argentine Economy* (New York: Council on Foreign Relations Press, 1995), 51.

⁵ World Bank, *Argentina: From Insolvency to Growth: A World Bank Country Study* (Washington D.C.: The International Bank for Reconstruction, 1993), 22.

As discussed in Chapter I, the long term economic picture was even worse. The economic decline had been occurring for the past sixty years, and by the late 1980s, most Argentines expressed the perception that the Argentine economy would continue to follow the same trends into the foreseeable future.⁶ (Figure 4.2)

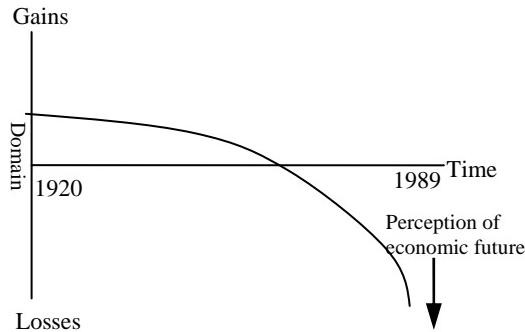


Figure 4.2 Argentine Domain- Constant Losses throughout 20th Century

Thus, Argentina was clearly in the domain of losses; in the short run the economy was collapsing, hyperinflation was taking over and prospects for the future were grim. But in the long run, Argentina had endured nearly fifty years of continuous losses and society was facing the prospect of further losses. According to prospect theory then, Argentina was ready for risk-seeking adjustments to avoid further losses.

C. ECONOMIC PLANNING: A RISKY DEVELOPMENT MODEL

Since the Peronato, Argentina had more or less followed a highly statist and interventionist model of economic development, focusing on import substitution to supply domestic markets with domestically produced goods. By 1989, it was apparent that this “hothouse” model was not only failing to produce positive development effects, but that it was hurting the economy through the tremendous fiscal drains imposed by highly inefficient government industries.⁷ Menem, elected from the PJ and therefore expected to follow a generally statist development stabilization model, surprised the nation by rather enacting a series of neo-liberal reforms to stabilize the economy, curb hyperinflation, and eventually lead to positive development trends. Since economic planning and foreign policy were so closely linked in Menem’s Argentina, a discussion of

⁶ Weyland, 194.

⁷ Carlos H. Waisman, *Reversals of Development in Argentina* (Princeton: Princeton University Press, 1987), 122.

his economic reforms provides valuable insight. These economic reforms were very risky domestically, since his primary support base, the Peronist party, was a labor conglomeration who would likely suffer under economic liberalization.

Menem sought to control inflation by controlling government spending, achievable through major fiscal reforms, including privatization of public enterprises, cut backs on private sector subsidies and an overhaul of the nation's tax system at all levels. Menem also made significant cuts in the military budget (discussed in greater depth below). With these reforms, Argentina actually ran budget surpluses in 1991, 1992, and 1993.⁸ These fiscal reforms were accompanied by tariff reform and ultimately a convertibility plan tying the Argentine currency, the peso, to the U.S. Dollar. The convertibility plan tied the Argentine peso to the U.S. Dollar on a one for one basis. Privatizations removed grossly inefficient enterprises from the government's budget, reducing a tremendous drain on the government coffers. It also created one-time cash inflows as each formerly government-run industry was sold off. Between 1990 and 1994, a total of 64 enterprises were sold, generating in-flows amounting to more than 9 billion USD, and eliminating government debt of nearly 12 billion USD.⁹

These changes were very politically risky. Planning to reduce subsidies to the private sector and reducing government expenses by cutting costs in the public sector while liberalizing government-run industries were measures sure to produce massive unemployment. When Menem took office in 1989, overall public sector employment was 2.03 million, representing roughly 25% of economically active Argentines.¹⁰ Elected from the Peronist party, one of Menem's greatest support blocs was the unions, who would surely be unhappy by such a spike in unemployment, a spike which Menem knew would result before beginning neo liberal stabilization. The potential of upsetting the labor unions is worth noting, since roughly 4 million employed Argentines are active in unions representing 36% of the labor force.¹¹ Thus, Menem risked upsetting a large

⁸ McGuire, 219.

⁹ Felipe A. M. de la Balze, *Remaking the Argentine Economy* (New York: Council on Foreign Relations Press, 1995), 94.

¹⁰ According to McGuire, 264, the population of Argentina in 1986 was just over 31 million, with just over 12 million economically active. Since 2.03 million Argentines were active in the public sector (McGuire, 216), the public sector employed roughly 20% of the population.

¹¹ Ibid., 268.

sector of highly mobilized laborers, who represented his primary political support base; a very risky endeavor. In fact, the unions turned out to be generally supportive of Menem's economic reform plan, seen through the relative lack of CGT¹² general strikes during Menem's first term in spite of an increase in unemployment from 8.6% in April 1991 to 18.6% May, with underemployment rising from 8.6 % to 11.3% over the same period.¹³ This was in contrast to thirteen CGT sponsored general strikes during Alfonsín's administration.¹⁴ The fact that the unions would accept these painful reforms without large degrees of protest was not known to Menem *ex ante*, he knew that the risks were great and proceeded.

Upsetting labor with increased unemployment was not the only risk Menem was taking; the convertibility plan was wrought with potential peril. Fixing exchange rates to those of another nation is an extremely risky plan as it ties the government's hands with regard to monetary policy, making corrections difficult if not impossible. The business elite would surely be unhappy with the Convertibility Plan, which meant that the upper echelon of the business world, which had benefited for years from government monetary policy, could stand to lose some of its nepotistic income. Society as a whole, generally against the idea of foreign investment due to nationalistic tendencies would likely balk at the notion of sacrificing monetary sovereignty to the "colossus of the north." But Menem followed this risky plan in spite of more flexible alternatives proposed by some economic advisors.¹⁵

But the business elite and society at large accepted this risky plan accepting losses caused by Menem's reforms as necessary. According to Kurt Weyland, Argentine society as a whole was willing to accept these short run losses because it was in the domain of losses, and therefore was prepared to "shun a certain loss of small magnitude and prefer instead the "lottery" that contains the promise of avoiding any loss, but also

¹² The CGT is an umbrella organization of unions which is used to mobilize workers for collective actions, such as strikes, demonstrations, factory occupations, etc.

¹³ By 1993, privatization had cost 85,000 jobs from the public sector. An additional 217,000 civil servants lost their jobs as Menem trimmed excess budgetary strains. Between April 1991 and May 1995, national unemployment surged from 8.6% to a tremendous 18.6%, giving Argentina the second highest unemployment rate in Latin America, second only to Nicaragua Source: McGuire, 222, 228.

¹⁴ Ibid., 234.

¹⁵ Weyland, 194.

the risk of a big loss.”¹⁶ However, Menem acting in the national interest, had every reason to believe that his reforms could have sparked tremendous domestic backlashes, and was risk seeking in regard to both the long run effectiveness of neo-liberal reforms and society’s willingness to endure short term losses for the possibility of long run rewards.

D. COMPLETE FOREIGN POLICY REALIGNMENT

1. A New View of Argentina’s Role in the World

Clearly Menem was running a domestic risk by changing Argentina’s development model and gambling on the potential gains economic liberalization may produce. But the subject of this thesis is not domestic risk caused by domestic change, but domestic risk brought by changes in foreign policy. In Menem’s case, foreign policy and the economic changes discussed above go hand in hand. Under previous regimes, Argentine foreign policy served primarily as a means to fulfill an Argentine sense of itself; its own exceptionality. Foreign policy was a vessel by which Argentina could prove itself to be great; a way to remind the world that Argentina was a hemispheric rival of the U.S. and a continental hegemon. This motivation is responsible for many of Argentina’s more unorthodox policies, such as the invasion of the Falklands/Malvinas (discussed in Chapter III) and Perón’s third position. However, in times of economic collapse, apparent compliance with U.S. objectives served to benefit the nation through the possibility of foreign aid and trading opportunities. (See Chapter I). The Menem administration realized this duality, and sought to redress it.

According to Carlos Escudé, Menem understood that Argentina’s economic malaise was based in large part on its free wheeling foreign policy. Foreign policy acted as a signal of the economic salience and security of a nation to investors, and nations which act in uncertain and deviant ways represent poor investments.¹⁷ Therefore, to accompany his economic reform package and encourage foreign investment Menem realized he needed to completely overhaul the basis for Argentina’s foreign policy and

¹⁶ Ibid., 189.

¹⁷ For more, see: Carlos Escudé, *Foreign Policy Theory in Menem’s Argentina* (Miami: University of Florida Press, 1997). Escudé served as a foreign policy advisor in the Menem administration, working directly with his economic staff, and therefore has an intimate understanding of the motivations and intentions of the Menem government.

pursue a more “normal” position in the international community. This realization is summer up by Menem’s foreign minister, Domingo Cavallo:

The national interest, in the kind of historical circumstances now prevailing, is most dramatically manifest by economic and social demands. Thus, foreign policy will be realistic and seek to create a better political relationship with the friendly countries of the world in order to resolve Argentina’s urgent economic and social problems.¹⁸

This overall approach was quite risky for two primary reasons. First of all, Argentine society has a historic trend of being highly nationalistic, and discussed in the introduction. Menem was essentially telling Argentines that their view of their nation was wrong, and that Argentina was *not* a great power, that it had once been a *rising* power, but that now it was a *Third World* power. Claims of this nature would be upsetting to society in times of prosperity, but in times of crisis it could prove to be political suicide. Secondly, Menem was making this foreign policy overhaul a mere six years following the transition to democratic rule and following a shaky administration in which his predecessor had to face constant concern over the possibility of a return to military rule. This is significant because the military had typically represented the nucleus of nationalistic fervor in Argentine society and because it stood to lose prominence.

2. Menem’s Foreign Policy

Since Menem sought to establish Argentina as a creditable, stable nation, his foreign policy adjustment represented a “normalization.” Since the early 20th century, it had wavered and changed its foreign policy stance on a number of occasions. Much like a pendulum, its policy swung between open support of U.S. efforts in the international community and open hostility to the “imperialism” of the northern “colossus.” It had harassed U.S. efforts to establish a Pan-American community, seeking instead to establish itself as a sub-regional hegemon. It had pursued nuclear proliferation and engaged in an arms race with Brazil, developing capabilities well above those of its northern neighbor. It had further engaged in territorial aggression in response to sovereignty claims, most notably fighting the Falklands/Malvinas War with Britain in

¹⁸ Roberto Russell and Laura Zuvanic, “Argentina: Deepening Alignment with the West,” *Journal of Intramerician Studies and World Affairs* 33 no. 3 (Autumn, 1991), 114.

1982 but also acting aggressively towards Chile and Brazil. While Alfonsín settled most of these disputes in an effort to consolidate Argentina's nascent democracy in the early 1980s, he failed to reconcile the conflict over the Falklands/Malvinas and continued the suspension of relations with Great Britain, in addition to adopting many policies contradictory to U.S. interests.¹⁹ In short, Argentina had engaged in an incoherent, activist foreign policy with ill-defined goals and based on a false perception of itself. Joseph Tulchin best describes Argentine foreign policy:

Its every move in international affairs seemed clumsy and confused. Was Argentina a country that defended Western and Christian values, or was it the country that had most violated the human rights of its citizens? Was it a country closely tied to the United States, helping it in the semi-clandestine struggle in Central America, or a nonaligned nation and the country, after Cuba, with the largest commerce with the Soviet Union? Was it a country of pacifist principles or an aggressor ready to go to war with its neighbors or with European powers in order to settle territorial disputes that were not resolved in its favor?²⁰

Menem's goal was to answer these ambiguities and finally bring Argentina's foreign policy into line with its true position in the international community, which he did by changing the direction of the nation's foreign policy.

Among the most noxious foreign policies Argentina has pursued in the past fifty years were its efforts to become a nuclear power. Argentina's nuclear energy program dated back to the 1950s, when it began mining uranium and building research reactors.²¹ It steadily developed through the 1960s and grew under the junta of the 1970s. As it developed its nuclear power capability, it refused to join either the Nuclear Non-Proliferation Treaty, or the Treaty of Tlatelolco (making Latin America a nuclear-weapon free zone), or to submit its nuclear facilities to inspection by the International Atomic

¹⁹ A few examples of policy contradictory to U.S. interest include: Alfonsín's inaugural declared Argentina to be a non-aligned moral nation in keeping with the decade's old policy of neutrality. From this standpoint, he called for the disarmament and denuclearization of the world. Alfonsín also openly chastised U.S. policy towards Nicaragua and sought to unify South America to resolve Central American problems without U.S. involvement.

²⁰ Joseph S. Tulchin, *Argentina and the United States: A Conflicted Relationship* (Boston: Twayne Publishers, 1990), 163.

²¹ Argentine atomic energy and nuclear weapons development program information from Rodney W. Jones and Mark G. McDonough, *Tracking Nuclear Proliferation: 1998* (Washington D.C.: Carnegie Endowment for International Peace, 1998).

Energy Agency (IAEA). Argentine refusal to join such regimes was based on the traditional claim of sovereignty and non-intervention. The return to democracy did not signal an end to Argentina's nuclear ambitions. Though the Alfonsín administration did indicate desire to end the "arms race" with Brazil, it still refused to allow inspection of its facilities or to join any nuclear weapons regimes. Furthermore, it began working with other pariah states on joint ventures, signing an agreement with Iraq and Egypt to begin the development of an intermediate range ballistic missile- the Condor II.²² At the same time Argentina began exporting nuclear materials to other "pariah" states. In 1985, Argentina concluded an agreement to export to Algeria (a non-NPT member with no safeguard agreements) a research reactor. Continued discussions occurred with Libya about the possibility of the sale of reprocessing and enrichment technologies. In 1987 Argentina agreed to help Iran construct a nuclear power facility, but the deal fell through before the project could be completed.²³

Menem immediately set about dismantling Argentina's nuclear weapons programs. In 1993, Argentina ratified the Treaty of Tlatelolco and in 1995 signed the NPT. In 1994, Menem scrapped the Condor II program and joined the Missile Technology Control Regime (MCTR). He also completed the work of his predecessor, signing the Foz de Iguazú agreement calling for bilateral safeguards, inspections, and control of nuclear facilities. Menem also halted construction of unfinished facilities, such as the reprocessing facility in Ezeiza and cancelled nuclear material export agreements with Iran and Libya. These measures effectively ended Argentina's status as a nuclear "rogue" and brought it into line with both its claims to be a peaceful nation and the developed world at large.

Menem sought to normalize foreign policy further through the establishment of the Argentine armed forces in the role of international peacekeeper, operating in conjunction with multilateral missions. This shift was in stark contrast to Argentina's

²² Signed in 1984, the agreement between Argentina, Egypt, and Iraq, called for the joint development of a ballistic missile capable of carrying a 1,000 lb. warhead 1,000 km with a sophisticated guidance system. With such range, it would have been capable of reaching the Falklands/Malvinas from Patagonia- Source: Carlos Escudé, "An Introduction to Peripheral Realism and Its Implications for the Interstate System; Argentina and the Condor II Missile Project," in *International Relations Theory and the Third World*, ed. Stephanie G. Neuman (New York: St. Martin's Press, 1998), 57.

²³ Argentine nuclear export programs from Jones and McDonough.

traditional position of neutrality and avocation of non-intervention and self-determination. Rather than continue to oppose the world's efforts to intervene on issues such as human rights and tyranny, Argentina would now follow such efforts. This was a big step, and essentially represented Menem's acceptance of the fact that Argentina was in fact, not, a leader in the world but a follower, and it was time to play that role. In 1990, Menem sent two warships to the Persian Gulf in support of Operation Desert Shield/Desert Storm. The fact that this move was made with no coordination with coalition forces and that the ships were more of a hindrance than a help is irrelevant, the true significance lies in the intent. Menem intended to demonstrate his willingness to support U.S. efforts, work together with the world in maintaining peace, and follow the lead of those in true positions of power. Since the Gulf War, Argentina has participated in numerous peacekeeping operations, including operations in Cyprus, Bosnia-Herzegovina, the Middle East, Previaka, Ethiopia, Kosovo, Guatemala, and Haiti. Furthermore, Menem established the Argentine Joint Peacekeeping Operations Training Center (CAECOPAZ) and the CENCAMOM Training Center, both located outside Buenos Aires.²⁴ Additionally, Argentina proposed the creation of a white helmet force manned by civilian specialists to assist during crises, which now operates around the world. Argentina's shift to an active role in international peacekeeping during the 1990s was so great, that UN Secretary General Bourtous-Gali "praised the Argentine sense of volunteerism towards the UN, particularly its role in peacekeeping."²⁵

Following the Falklands/Malvinas War in 1982, Anglo-Argentine relations, historically very strong, became virtually non-existent. Alfonsín had taken a very hard line approach to the issue of the return of the Falklands/Malvinas to Argentine control, negating any potential reconciliation with Argentina's oldest trading partner and not helping Argentina's position in the world at large. Furthermore, the Alfonsín administration mounted a vigorous campaign to focus international interest on

²⁴ Argentine Peacekeeping information courtesy of: Marta Balla "Permanent Mission of Argentina to the U.N.," *Argentina at the U.N.* [Webpage online]; available from <http://www.un.int/argentina/english/>; Internet; accessed 10 August 2004.

²⁵ Cited in Antonio L. Palá, "Peacekeeping and its Effects on Civil-Military Relations: The Argentine Experience," in. *International Security and Democracy: Latin American and the Caribbean in the Post-Cold War Era.* ed. Jorge L. Domínguez. (Pittsburg: University of Pittsburg Press, 1998), 131.

Argentina's historic claims to the islands, only serving to make himself appear as the aggressor. Menem adamantly sought rapprochement with Great Britain; he felt that Argentina and Britain needed to develop strong bonds again, as he hoped that trade with Britain and British investment would greatly assist in Argentina's recovery.²⁶ Thus, even though Menem continues to call for the return of the islands to Argentina in international fora, "the Menem administration has consistently argued that its rhetorical assurances concerning the recovery of the Falklands are ground in a commitment to search for a peaceful solution."²⁷ The extent of Menem's desire for friendly relations is illustrated in an incident involving exploitation of fishery resources. After diplomatic relations were reestablished between the two nations, a bilateral working group met in Madrid to discuss the zone of exclusion Britain had placed around the island following the 1982 conflict, only to nearly fall apart over issues regarding fishery control. However, Menem, realizing that this important step of rapprochement was in danger, took control "even to the point of taking unilateral steps, such as maintaining telephone contact between the two foreign ministries."²⁸ Menem reached agreements with the British over oil and gas exploitations, guaranteeing that any bilateral discussion on oil or natural gas does not affect in any way the political status of claims to the islands. These agreements resulted in joint exploration and protection measures such as the South West Atlantic Hydrocarbons Commission. Clearly, Menem's willingness to work *with* the British on the issue of the Falklands/Malvinas Islands rather than *against* them represents a break from the past and demonstrates Menem's determination to ensure positive relations with the developed world.

Perhaps most important to Menem's shift in Argentina's foreign policy was his unwavering support for the United States, in contrast to nearly every previous Argentine head of state. Though some leaders had followed U.S. lead occasionally and briefly, Menem pursued a consistent policy favorable to the U.S. in nearly every respect. This proved exceedingly difficult, because, in the words of Minister Cavallo, "there [were]

²⁶ Russell and Zuvanic, 114-116.

²⁷ Klaus Dodds, "Towards Rapprochement? Anglo-Argentine Relations and the Falklands/Malvinas in the Late 1990s," *International Affairs* 74 no. 3 (July, 1998), 623.

²⁸ Russell and Zuvanic, 115.

virtually no areas of disagreement” between the two nations.”²⁹ Menem openly stated in 1990, “We want a close relationship (*un amor carnal*).”³⁰ This resolve was demonstrated in the aforementioned cancellation of the Condor II missile project, which, according to the President, occurred “to avoid a situation of confrontation not only with the United States, but also with the other countries of the world.”³¹ The ultimate cancellation came as the result of intense U.S. diplomatic pressure, but intense diplomatic pressure has not historically been entirely convincing.³² Menem’s ambassador to the OAS (historically Argentina had strongly opposed the OAS as a tool of U.S. control in Latin America) Juan Pablo Lohlé worked closely with Chilean, Brazilian, and U.S. ambassadors to the goal of making the organization a more effective body. In 1990, U.S. President George H.W. Bush received a warm welcome in Buenos Aires during a trip throughout the region, declaring Menem a world leader in the area of privatization and a defender of democracy. Prior to his arrival, Argentine-U.S. negotiations concluded on assistance in penal matters to ensure mutual assistance in matter of crime prevention, investigation, and law enforcement. These measures, combined with Argentina’s new role in international peacekeeping efforts in fora led by the U.S. and the cancellation of nuclear programs coupled with acceptance of nuclear control measures demonstrate Menem’s new willingness to accept U.S. lead in international affairs and work with the U.S. on foreign policy issues.

3. Shifting Foreign Policy = Domestic Risk

As illustrated in the preceding section, Menem undertook a drastic, broad reform in Argentina’s foreign policy goals. Though these measures were accepted by the international community as welcome, at home these measures were uncertain at best, very dangerous at worst. This is true because of two broad conditions in Argentine society, enduring and temporal. The enduring conditions are those conditions discussed in the first chapter which are generally applicable to Argentine society, nationalism and exceptionalism. The temporal conditions are those which were uniquely present during

²⁹ Ibid, 122.

³⁰ Ibid., 121.

³¹ Ibid., 122.

³² For more on U.S. pressure and the Condor II, see Escudé, “An Introduction to Peripheral Realism and Its Implications for the Interstate System.”

Menem's foreign policy transformation. Both enduring and temporal features of Argentine domestic society presented a great deal of risk to Menem as he realigned Argentina's foreign policy, and for this reason he was taking a rather large gamble.

Argentine society tends to be very nationalistic and favor its sovereignty. Thus, measures which contradict nationalist sentiment are likely to be ill-received. Most of Menem's efforts in foreign policy were contrary to nationalist sentiment. Nuclear weapons are a symbol of national power. Only the most powerful nations in the world have them, and Argentina was well on the road to acquiring nuclear capability and fulfilling its perceived role in the international community. But Menem cancelled nuclear weapons development efforts and agreed to allow international observers to inspect sovereign Argentine facilities. By taking on a greater role in peacekeeping operations, Menem was agreeing to subordinate Argentina's traditional neutral stance to a greater power and to completely eliminate its long standing interventionist policy based on self-determination. In 1991, nearly 70% of the Argentine public was opposed to sending ships to the Gulf War.³³ The cause for this opposition is simple. The Gulf War was a U.S.-led war in support of U.S.-led interests. By sending ships to the Gulf, Argentina was acknowledging that the U.S set the international agenda and therefore it could command a response from Argentina, essentially negating Argentina's autonomy of action, cherished by the Alfonsín administration.³⁴ The Falklands/Malvinas issue was a potential boiling point for Argentine society. Argentina had been thoroughly embarrassed in the 1982 conflict and nearly 700 lives were lost in a war over territory which in the mind of Argentines belonged to Argentina.³⁵ By "getting into bed" and making bilateral agreements with Britain, Menem was essentially accepting British occupation, in spite of rhetorical claims to the contrary. Carlos Escudé argues that the Alfonsín administration failed to approach relations with Great Britain because it was not willing to confront the domestic political risks, and for this reason it didn't dare to even

³³ Palá, 132.

³⁴ Tulchin, *Argentina and the U.S.*, 173.

³⁵ Carlos Escudé, "Argentine Territorial Nationalism," *Journal of Latin American Studies* 20 no. 1 (May, 1988). Casualty information from Max Hastings and Simon Jenkins, *The Battle for the Falklands* (New York: W.W. Norton & Company, 1983), 316.

officially state that the war had ended.³⁶ Menem's ostensible acceptance of the territorial status quo could have triggered a domestic backlash from society seeking to reassert control over the islands, not necessarily through aggression but through diplomatic measures. Finally, Menem's closer relationships with the U.S. could have been troubling to Argentine nationalists, who see the U.S. at the "northern colossus." U.S. pressure to cancel the Condor II project would represent just the beginning of a potential myriad of U.S. impositions on the sovereign government of Argentina, and would represent an unacceptable acquiescence of Argentine autonomy to another power.

At the time of Menem's transition in foreign policy to the new model developed by himself and his economic and foreign ministries, Argentina was facing a difficult situation in terms of consolidation of democracy. Under Alfonsín, there had been three military rebellions, occurring in April 1987, January 1988, and December 1988. Though these rebellions were against specific government policies rather than against the government at large, they demonstrated that the civilian leadership was in a fragile position.³⁷ By changing foreign policy away from the highly nationalist policy of his predecessor's, Menem risked upsetting entrenched interests within the armed forces, potentially sparking a larger scale uprising. Menem's cancellation of nuclear proliferation programs had the greatest direct affect on the military (besides peace-keeping role acceptance). If the military possessed nuclear weapons capability, it would be respected around the world, overcoming the embarrassment of the Falklands/Malvinas debacle. Cutting these programs took away a "straw" that the military was grasping at following the transition to democracy. With budgetary cuts under the Alfonsín

³⁶ Ibid. 161.

³⁷ They were all against government actions to prosecute military members who had participated in human rights abuses during the 1976-1983 junta, and sought not regime overthrow but resignation of perceived "disloyal" commanders in response to trials of crimes committed during the "dirty war." Alfonsín interpreted rebellion as coup, he responded with the Due Obedience Law, exempting those below the rank of Lieutenant Colonel from prosecution. Sources: McGuire, and John Arquilla and Maria Moyano Rasmussen, "Twenty Years After: Argentina in the Wake of the South Atlantic War," *Defense and Security Analysis* 18, no. 4 (2002): 351-362 For a much more detailed description of these rebellions, see Deborah L. Norden, *Military Rebellion in Argentina: Between Coups and Consolidation* (Lincoln: University of Nebraska Press, 1996).

administration³⁸ and facing the prospect of atonement for its actions during *el proceso*, the military could become desperate as its entire world fell apart. Similarly, the military would be unhappy at the fact that Menem opened relations with Britain, potentially seen as conceding Argentine territorially rights they had fought so hard for only eight years prior.

However, Menem was able to mitigate the possibility of a military backlash by cutting a deal with the military, trading its support for amnesty of human rights abuses.³⁹ But in so doing, Menem risked the upsetting society at large which was in favor of punishing the military after suffering through eight plus years of terror, especially the mothers of the *Plaza de Mayo*, and therefore facing another backlash in the form of massive organized protest. Thus, in canceling nuclear proliferation policy and seeking rapprochement with Great Britain, Menem knew he would be upsetting *someone*, be it the military or civilian sector through cutting one manner of deal or another; thus he was taking a large domestic risk.

E. CONCLUSION

This chapter has sought to demonstrate how President Carlos Menem carried out a radical change in the direction and strategy of Argentine foreign policy beginning in 1989. He carried out this “revolution” in order to match his new vision of Argentine development. It has been argued that Menem was taking a large domestic risk by enacting uncertain neo-liberal reforms and abandoning the age-old quasi-statist/interventionist development model⁴⁰, but analysis of his foreign policy tends to center on the economic effects and the views of the international community. I have tried to demonstrate that by shifting foreign policy to an adamantly pro-western stance, Menem was also facing a great domestic risk, both from Argentine society which tends to

³⁸ Reducing the overall military budget to pre-1976 levels: Source: John Arquilla and Maria Moyano Rasmussen, “Twenty Years After: Argentina in the Wake of the South Atlantic War,” *Defense and Security Analysis* 18, no. 4 (2002), 353.

³⁹ Menem was able to curb potential military resistance by largely agreeing to provide amnesty for members of the armed forces involved in the dirty war (including those convicted and serving prison terms) and to provide amnesty for members involved in rebellions which occurred during the Alfonsín administration. Furthermore, Menem made gave the armed forces a useful role, transforming them into an international peacekeeping force capable of operating with international forces on the global stage as discussed above. For more on peacekeeping as a means to control military dissent, see Palá.

⁴⁰ Weyland 185-207.

by highly nationalistic, and from the armed forces who could overthrow nascent democracy in a return to military government. But Menem was willing to take this risk because he realized that Argentina was in the domain of losses, and he was willing to take even greater risks and instituted broader changes in national strategy because Argentina was in a long run domain of near-constant losses dating back to the 1950s (See Figure 3.1). Thus, Menem's actions demonstrate how prospect theory can be applied on two levels, by taking actions on the international stage, Menem was accepting domestic political risks, but was willing to do so because domestic society was in the domain of losses.

V. CONCLUSIONS

A. RESULTS

The case studies of the preceding chapters provide good individual examples of prospect theory in practice. In each case, the regime leadership found itself in a domain of losses or gains, and reacted with either risk seeking or aversion. Juan Perón came to power under conditions of prosperity created by the end of the Second World War, and thus was able to formulate a foreign policy which was domestically risk-averse. This policy tended to be highly unorthodox and irritating to the U.S. and its allies; however it was safe in that it appealed to domestic nationalism. But when economic decline set in and Perón found himself in domain of losses, he engaged in domestically risk-seeking behavior by allying himself closer to the U.S. The military junta under Leopoldo Galtieri found itself facing an international domain of losses as its effort to secure national borders was failing and vast tracts of territory considered sovereign Argentine territory faced “annexation.” The junta engaged in risk seeking in response to this loss by launching a touch and go operation to force the British to the negotiating table. But when the British responded not with diplomacy but with force, the junta found itself unexpectedly in a domestic domain of gains caused by a wave of popular support for the action exceeding expectations. Since ignoring this sentiment and withdrawing from the islands would be humiliating and cause the loss of necessary domestic allies (the elite oligarchy) the junta engaged in domestic risk aversion and maintained forces on the islands, thus fighting a war with the British. Carlos Menem came to power facing a tremendous domain of losses created by Argentina’s rampant hyperinflation and collapsing economy, and immediately engaged in a domestically risk-seeking foreign policy, seeking “carnal” relations with the U.S.

Thus individually, each case demonstrates policymaker decision making based on a positional reference point regarding gains and losses rather than based on perceptions of absolute utility, and adds validity to the underlying theoretical paradigm. Thus, prospect theory provides critical insight into the Argentine decision-making throughout the twentieth century. The cases also point towards a trend in Argentine foreign policy

generally unrecognized in the foreign policy literature. Argentina's position in the international community is often viewed as erratic, with frequent swings in direction and attitude, especially regarding its relationship with the United States. However, based on this study it seems that Argentine foreign policy decisions are made based on a perception of gains and losses.

The first factor which must be considered is Argentina's remote history of extreme prosperity. As discussed in the Chapter I, Argentina until roughly 1930 was a nation on the verge of becoming one of the world's great powers, with an economy rivaling most Western European nations and a level of development and urbanization unsurpassed in Latin America. The memory of this past has created a perception among the Argentine population Tulchin has described as "exceptionalism," the perception that Argentina is a special, unique, and "soon to be great" nation.¹ As discussed in Chapter I, this is reinforced in educational systems and by government rhetoric and has created an extremely keen sense of nationalism among the Argentine population.² So strong is this nationalism that outside observers felt it was a pretext for war.³ Though this turns out not to be the motivation for the action, the fact that this misperception could even exist demonstrates recognition of Argentina's uniquely strong nationalistic tendencies.

But through the 20th century, the memory of past greatness has combined with the reality of Argentina's economic decline and concurrent decline in general power relative to other nations of the world, occurring in a generally negative direction with "hiccups" of growth. These ups and downs have created a domestic situation which has alternated between the domains of gains and losses with some degree of regularity. Nationalism and economic fluctuation combined with a strong popular movement in the 1940s to create a situation in which foreign policy actions became largely based on regime perceptions of domestic status, in spite of the fact that this perception often contradicting

¹ Joseph S. Tulchin, "Continuity and Change in Argentine Foreign Policy", in *Latin American Nations in World Politics*, 2d ed., eds. Heraldo Muñoz and Joseph S. Tulchin (Boulder: Westview, 1996).

² Carlos Escudé, *Education, Political Culture, and Foreign Policy: The Case of Argentina* (Durham: Duke-UNC Working Paper Series, 1992).

³ Carlos Escudé, "Argentine Territorial Nationalism," *Journal of Latin American Studies* 20, no. 1 (May, 1998), 139-165.

the reality of Argentina's position, economically and diplomatically.⁴ When the nation was well off, policymakers were able to keep the nationalistic population content by engaging in what could be considered adventurism in the foreign policy arena in line with national self-perception. But when economic crisis set in, policymakers found that their dependent economy needed the support of international financiers, and thus had to engage in behavior more "acceptable" to the international community in order to encourage positive economic assistance. In this case, policymakers were gambling on whether the population would accept anti-nationalism in order to encourage economic growth. In some cases (Juan Perón), the gamble failed. In others (Carlos Menem) it paid off. And in other cases, external stimuli motivated action when it contradicted Argentina's perception of itself (the junta). Thus, it appears that Argentine foreign policy is not as erratic as commonly held. This study illustrates that policymakers are acting in a comprehensible manner, but up until Menem they acted in an almost reactive fashion based on short term reference points of gains and losses.

By taking each individual case study and examining the basic elements of the foreign policy decision made by each regime, it is possible to compile the data into a table, which is useful for analyzing the results from a broad theoretical perspective. Table 5.1 examines each case. The columns represent the basic elements. The first column is the regime in power and the foreign policy choice analyzed in the preceding chapters. The second column determines whether the regime found itself in the domain of gains or losses when making the decision at hand, while the third column describes whether the domain of gains or losses was experienced at the domestic or international level. The fourth column states whether the action taken was risk seeking or averse, and at which level this was the case. The final column illustrates whether the action taken was risk seeking or averse at the opposite level.

⁴ This was not the case under authoritarian regimes, which explains the different focus of the military junta from 1976-1982, and thus a different risk basis for foreign policy. However, as seen in Ch. 4, even strong authoritarian regimes can feel pressure from this nationalism, as the junta did when it was forced into fighting the South Atlantic War by the unexpected gains it encountered after the recovery.

Case- Policy Shift/Action	Domain When Decision is Made	Level of Domain of Loss/Gain	Level at Which Risk Seeking or Aversion Occurs	Risk Propensity at Opposing Level
Perón-Warming to U.S. and Less Intl. Activism	Losses	Domestic	Domestic-Risk Seeking	International/Aversion
Junta-Malvinas Recovery	Losses	International	International-Risk Seeking	Domestic/Aversion
Junta- Holding position in islands	Gains	Domestic	Domestic-Risk Aversion	International/Seeking
Menem-Strong Tie to U.S.	Losses	Domestic	Domestic- Risk Seeking	International/Aversion

Table 5.1 Levels of Prospect Theory: Argentine Case Studies

B. PROSPECT THEORY: VALIDATION AND EXPANSION

1. Levels of Domain and Levels of Risk

Based on the information in Table 5.1, several conclusions can be drawn about the manner in which prospect theory functions as a two level game, at least in the unique case of Argentina given the peculiarities discussed above. First of all, it seems apparent that when a leader is faced with either a domain of gains or of losses at either level, he will respond with a decision that is either risk seeking or averse (depending on whether he/she sees losses or gains) at the level of the loss/gain. This may seem to be an obvious conclusion following the examples provided in the preceding chapters, but recall the example described in the introduction. The claim was that military regime in Argentina engaged in an international war in the South Atlantic in 1982, an *internationally* risk-seeking action, in order to attempt to save itself from a *domestic* domain of losses. But as discussed in Chapter III, this claim is inaccurate, the junta was responding with *internationally* risk-seeking behavior in order to save itself from an *international* domain of losses.

A second observation relates to an ostensible correlation which may or may not be intentional but is noteworthy. When a decision maker takes an action in response to a

domain of gains or losses (which will be either risk seeking or risk averse based on the fundamental principles of prospect theory and the observation noted in the previous paragraph) the action will tend to be opposite regarding risk at the opposing level. Thus, although Perón was engaging in risk-seeking domestically by pursuing a more “traditional” foreign policy in the early 1950s, his actions were risk-averse at the international level. The same is true of the 1982 junta’s decision to fight in the Malvinas. Though a domestically risk averse decision, the action carried tremendous international risk. Though this observation warrants note, it is not definitive several instances come to mind in which the opposite would be true outside of the Argentine context.

2. Risk Magnitude as a Function of Domain Magnitude

Table 5.2 compares the magnitude of the domain each regime found itself in to the magnitude of the risk seeking/aversion behavior they pursued in response. Though the values are subjective and the range of values isn’t great, it is intended to demonstrate a trend more than a statistically objective law. In each case, the magnitude of risk seeking/aversion the regime pursued was related to how far “into the hole” or “in the plus” the regime found itself.

Regime-Policy Shift/Action	Magnitude of Domain/Domain	Magnitude of Risk Action (Seeking or Aversion)
Perón- Warming to U.S. and Less Intl. Activism	Moderate/Losses	Moderate to High
Junta- Malvinas Recovery	Moderate/Losses	Low-Moderate
Junta- Holding position in islands	High/Gains	High
Menem- Strong Tie to U.S.	Very High (and long term)/Losses	Very High (and long term)

Table 5.2 Domain vs. Risk Magnitudes

Perón’s economic plan was failing and the economy was in bad shape, but not completely out of control, so he was moderately into the domain of losses. The risk seeking he responded with by pursuing less nationalistic foreign policy initiatives, though risky, only truly upset a small percentage of the population, most notably the military. However, had he been able to produce more growth, popular backlash to a coup attempt could have kept him in power, thus he pursued a course that was moderately risky. The

junta found itself in a domain of losses regarding foreign policy, but the Falklands/Malvinas issue was still open, and had not been closed resoundingly. The Beagle dispute, though expected to end up in Chile's favor, was still under papal consideration. The regime could have held out for the British to continue negotiations rather than invaded, thus it faced a moderate or even a low domain of losses. The action, recovering the islands, was moderately risky because a British response was not certain, even given the response to the South Georgia incident. However, once the recovery was made public, Argentines took to the streets in elation, producing such a strong effect that the regime had no choice but to stay and fight, going to war in order to avoid domestic risk. A withdrawal without fighting would have so discredited the military once it had opened "Pandora's box" of nationalism, that any return to democracy (which was being considered in the near future) would be fully dictated by the civilians. Finally, Menem came to power as the nation was crumbling, after 40 years of economic malaise and collapse; the nation was very far into the domain of losses. Thus, he responded by a complete and permanent shift in foreign policy, contrary to his Peronist background, a very domestically risky maneuver. With these three regimes, it seems apparent that the magnitude of the decision makers' risk seeking or aversion is a function of how far into a domain he/she is. Although the curve may not be in line slope etc., the trend is illustrated in Figure 5.1.

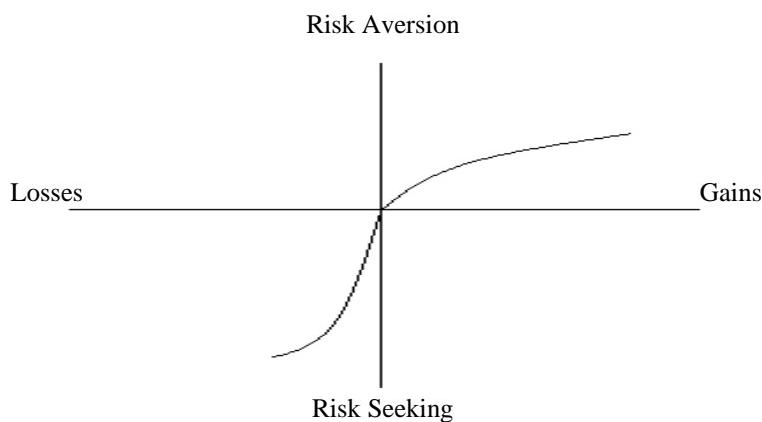


Figure 5.1 Risk Magnitude as a Function Of Domain Magnitude

C. CONCLUSION

This thesis has sought to examine the manner in which decisions are made in a two-level game using Prospect Theory. The case studies individually provide validation of the theory, indicating that policymakers do in fact make decisions based on a reference point relative to gains and losses. Taken together, the cases have produced some interesting findings regarding Argentine foreign policy and prospect theory as a two-level game. Though it initially appeared as though losses or gains at one level were resolved through seeking or avoided risk at another level, the case studies presented here indicate that risk is assessed at the same level that losses or gains are felt. Furthermore, it is apparent that the level of gains or losses the decision-maker feels will lead him/her towards greater risk seeking/averse behaviors.

The cases chosen here to analyze the extent of prospect theory as a two-level game all originated from foreign policy. That is to say that the analysis centered on a policymaker's choices towards the international community based on both domestic and international factors. Any equally significant and perhaps more interesting analysis could discuss the extent that domestic policy choices could be made based on the international risk. This could be highly relevant in the study of international relations, for it would analyze the international risks states take by enacting various domestic policies and examine the effect threats of coercion bear on domestic policies (i.e. human rights abuses and economic reforms imposed by international financial organizations). However, such is the subject of future work. Although this aspect should be developed further, it appears to provide a useful framework for two-level analysis of decision-making relative to perceived gains and losses.

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